

FAR EASTERN

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Editorial Statement

The purpose of this weekly economic publication is to analyse and interpret financial, commercial and industrial developments; to collect economic news; and to present views and opinions with the intent to improve existing conditions. Politics and economics being connatural, it will be inevitable that this publication may at times appear to transgress its primary objective by reporting on, and dealing with, political affairs.

At any time and in every case unbiased and dispassionate, factual and balanced reporting will be our aim and policy.

We shall concern ourselves with Pacific and Far Eastern affairs but Hongkong and China will be prominently dealt with.

The circulation of our economic news and reports will not be limited to the Far East but will reach to all parts of the world where information on international trade and finance is required.

The English language is the lingua franca in this part of the world; Siamese and Filipino merchants, Chinese and Malayan students, Japanese and Indian bankers, all converse, negotiate and correspond in English. With the ascendancy of the United States over the Pacific area the use and understanding of the English language will further rise until the fond hopes of the late H. G. Wells can be realised, and English might become the universal medium of speaking and writing among modern men. It is in this anticipation that we publish a Far Eastern economic review in the English language.

Hongkong is one of the world's leading hubs. The importance of Hongkong transcends the mere financial and commercial sphere. It is an international meeting place of the first order, a "civilisation exchange" between West and East. Propositions of ideas and conceptions reverberate from here through the whole of the Far East, and penetrate even into the chancelleries of the great powers. Hongkong has one of the world's busiest and biggest harbours, it promises to develop a similar airport, it is a great trading place and might soon also grow into a modest industrial city. Business is the overriding interest and pursuit here. Nevertheless cultural life has prospered in Hongkong, and we discern a remarkable thirst for more and better education, information and knowledge, and intellectual satisfaction.

The present position and potentialities of Hongkong justify optimism. Here is a benevolent administration of trained civil servants who work for the common weal under the guidance of one of the best and progressive governments the world has seen. Peace, order and prosperity under British law are traditionally guarded and promoted. Civic security is guaranteed. The British government stands by with advice and assistance if such are required.

Given reasonably stable conditions for the future, a period of prosperity will certainly follow.

Notes of the Week

THE MORATORIUM

In his speech to the annual meeting of the Shareholders of the Hongkong & Shanghai Banking Corporation on July 12, 1946, the Hon. Mr. A. Morse, C.B.E., the Chairman, said:—"To my mind there is little doubt that one of the restrictions which prevents trade recovering more rapidly is the existence of the moratorium both here and in Malaya." The moratorium came into effect under the Military Administration on September 13, 1945.

Its effect was to prohibit creditors during the period of the moratorium exercising or enforcing by process of law their rights and remedies against debtors. It is often overlooked however that it did not prohibit the voluntary payment of any debt, so that debtors are at liberty to pay or compromise with their creditors, nor are creditors' rights altogether lost. It is only in the case of non-payment being relied upon as a defence to a claim that the creditor is precluded from enforcing his rights. However, the moratorium has acted as a general restraint on the settlement of creditor-debtor relationships. The prohibition was extended to dealings in land and to securities.

In the Legislative Council of September 5, the Hon. Mr. M. K. Lo, C.B.E., seconded by the Hon. Mr. D. F. Landale addressed the Council in a motion to urge the Council to expedite, with all speed the restrictions imposed by the moratorium particularly in regard to transactions in shares and property. He stressed the fact that a year had elapsed since the imposition of the restrictions and that in the meantime the Home Authorities should have had ample time and opportunity to make the necessary investigations and come to a decision. The learned Attorney General in reply dwelt on the difficulties created during the Japanese occupation and their effect on debts incurred during and before the occupation. In particular he stressed the difficulties of finding a standard for the valuation of obligations incurred in military yen.

In Malaya it is believed that there has been a partial lifting of the moratorium in respect to dealings in land and securities. Here in Hongkong the public is waiting anxiously, if not impatiently, for a removal of the obstacles to trading so that the wheels of commerce can once again turn with smoothness and freedom.

THE MUNICIPAL COUNCIL PLAN

The announcement of the declared policy of His Majesty's Government to give the residents of British colonies in South East Asia a fuller and more responsible share in the management of their own affairs has produced several reports to H.E. the Governor in Hongkong while the Singapore Municipal Constitution Committee has submitted a report to Sir Franklin Gimson, the Governor of Singapore.

In Hongkong in spite of press invitations for public views there has been a marked apathy on the part of the public in general. There seems to be a reluctance in these difficult times to embark on an experiment which may not

be as advantageous to the prosperity of the Colony as it may be flattering or satisfying to whatever democratic sentiment there may be in the Colony. Many prefer the safety and stability of a benevolent autocracy with all its faults to the perils of innovation. At the same time it must be recognized that there are undercurrents of feeling that a gradual change is needed and is inevitable. After a century of British administration the Colony has become more politically conscious, and deserving of a greater degree of participation in local Government.

The recommendations made to H.E. the Governor in Hongkong by individuals and by representative bodies vary considerably. The Chamber of Commerce recommended a Municipal Council of sixteen members all of British nationality six to be elected by a Chinese electorate and ten including one to represent the Portuguese and one the Indian community to be elected by the non-Chinese electorate. The Governor in his tentative scheme which was published in the press as a basis for discussion suggested a Council of forty-eight members of whom half should be Chinese.

One Chinese group probably bearing in mind a popular assembly for occasional public discussion visualised a parliament of a hundred representatives.

The Singapore report appears to be much more sober and practical in its recommendations. Singapore has already had some experience of a municipal administration. Its report shows a realisation that what is required is not an arena for public discussion on municipal affairs but a working Council which is capable with expediency and efficiency of transacting the manifold and varied business of a municipality and of making decisions on tangled problems often involving national and sectional issues. The Singapore Council recommends a Council of twenty-seven or twenty-four Commissioners of whom two-thirds may be chosen in direct election while one-third would be nominated so as to ensure the due representation and balance of all interests. The suggestion has much to commend it to the serious attention of our authorities in Hongkong.

There is one aspect of the proposed reforms which is likely to escape the notice of many who are keen in their advocacy of an extended popular administration.

While undoubtedly the present colonial system has many faults and involves much expenditure which could be avoided by the employment of more local employees, it is by no means certain but that a municipal administration will at least for some time be considerably more expensive to the community. The Governor's announcement referred not only to a fuller share in the management of the residents' own affairs but also to a greater responsibility, which involves taxation to support the new system.

CHINA COMPANIES

The Hongkong Government Gazette has in recent numbers announced an order of H.E. the Governor for the registration by the Registrar of Companies in Hongkong of a number of China Companies. A China Company is defined in the Companies Ordinances Hongkong as "a company the operations of which are directed and controlled from a place within the limits of the China Orders in Council"; that is in the Republic of China. This definition distinguishes a China Company from a Hongkong China Company which is defined as "a company which carries on some part of its business within the limits of the China Order in Council (i.e. in the Republic of China) and the operations of which are directed and controlled from some place in this Colony".

Up to the outbreak of the war with Japan a large number of British companies incorporated under the Companies Ordinances Hongkong were controlled from Shanghai and elsewhere in China and where there registered as China Companies. On the abolition by the British of extraterritorial rights in China under the Treaty of January 1943 the legal position of these companies in China became difficult as they were in fact foreign companies and could not be expected to be recognised under Chinese Company Law except as branches of foreign companies if and when they became registered in the country of their incorporation.

In the meantime British law recognised the continuance of these China Companies and their power to carry on business until they could be properly registered in Hongkong.

Two courses were left open to them.

(1) Provision was made to enable Companies, including China Companies, to be transferred as an emergency measure from enemy occupied territory to England or Scotland or the British Dominions. This was in accordance with the law of the new domicile and the Defence (China Companies) Temporary Transfer of Registered Office Regulation, 1941; The Colonial Companies/Transfer/Order in Council, 1942; and Regulation 5 of the Defence (Companies) Regulations, 1940.

After the cessation of hostilities it became necessary to provide machinery to enable these transferred companies to be re-transferred to their country of origin. In England an Order in Council (Emergency Powers/Defence/Companies, 1945, No. 1533) provided in effect that Companies incorporated in Hongkong whether China Companies or not were given a time limit of six months after being notified by the Board of Trade within which to take the necessary steps to be re-transferred to Hongkong under the law of the Colony.

This provision for retransfer, however, was subject to a provision being made under the law of Hongkong for the registration of companies that had been temporarily in exile. So far no such provision has been made but it is understood that for some considerable time Government has been in communication on the subject with the British authorities in England. None therefore of the Hongkong incorporated companies which were temporarily

HONGKONG'S NEW AIRFIELD

The necessity and urgency of a new airfield has been recognised by all commercial airlines, the travelling public and government. The facilities of Kaitak have been considered inadequate many years before the war primarily on account of the hillside to the north of the field, and secondly because of relatively short runways.

transferred to the United Kingdom or the Dominions has been able up to now to return home.

(2) Every China Company that did not avail itself of the opportunity to transfer its Head Office to the United Kingdom or the Dominions has under article 4 of the China Order in Council of March 1943 been given the opportunity to be registered with the Registrar of Companies in Hongkong. For this purpose they have been given a time limit of six months from a date after re-establishment of a British Consulate in Shanghai and after provision has been made in Hongkong for the registration of China Companies, such date to be specified by the Secretary of State in the London Gazette.

So far such a date has not been specified. In view, however, of the difficulties in which China Companies were placed in China, not being allowed to trade until they had been registered in Hongkong and had opened branches in China under the Chinese Company law, the British Military Administration of Hongkong came to the rescue. By Proclamation 27 of March 16, 1946, they provided the necessary facilities for the emergency registration of China Companies in Hongkong by Order of the Governor-in-Council on the application in writing of the companies concerned. The powers vested in the Governor by the Proclamation have been continued after the restoration of civil government by the Law Amendment (Transitional Provisions) Ordinance, 1946.

Up to the present about 200 China Companies have been approved for registration in Hongkong.

One serious difficulty experienced by China Companies in the process of transfer is that generally their capital is expressed in Taels or Chinese dollars. There are many reasons why it is preferable that the capital on transfer should be expressed in Hongkong dollars or possibly even in sterling. One suggestion has been made by Company law experts that when the Memorandum of the Company is altered to state that the Registered Office of the Company will be situated in Hongkong, a further alteration be made that the authorised capital of the Company be stated in Hongkong dollars or pounds sterling divided into a specified number of shares expressed in the same currency allowing a company to have the power provided in the Companies Ordinances to alter its share capital. This is one of the many questions which we believe are receiving the earnest consideration of the Hongkong Government authorities.

The development of aviation during the war years, emphasising ever larger machines, has prompted local government to speed up research and planning for an early construction of a new and modern aerodrome. The various schemes drawn up before 1941 by P.W.D. engineers, one advising as a site eastern Lantao, another some reclamation inside Kowloon Bay, have not been approved by the investigation commission of the British Civil Aviation Ministry who recently surveyed all possible sites and ended up by recommending a strip of land on the shore of Deep Bay. Previous to this commission's investigation and recommendation, another plot of land, near the village of Pingshan, and only slightly to the south of the Deep Bay site, was believed to present the best answer to the pressing airfield question; this was particularly so in view of R.A.F. engineers' optimistic estimates about cost of construction (about £1½ million). Lord Knollvs, chairman of B.O.A.C., and P.W.D. engineers were opposed to the Pingshan site as soon as they learned about, and on April 3 the plan was abandoned with the explanation that such airfield would not meet international civil-aviation standards. There was also a political angle to this plan: official and unofficial Chinese protested against an airfield to be built by R.A.F. practically on the Hongkong-Chinese border.

Deep Bay

To construct the Deep Bay airfield will require an estimated outlay of £4 millions which amount would have to be borne, at least initially, by the Imperial government. For this reason, and for the political implications which might be expected, the plan, fully supported by everybody in Hong Kong, is still under consideration in London although decision can be expected very shortly. Construction will require several engineering feats such as the dynamiting of four million cubic yards of granite which will be used for reclamation of the western shore of Deep Bay. Until the completion of this field Kaitak will have to serve the needs of Hong Kong. Construction of Deep Bay field might take from 18 months to (more probably) two years. Kaitak would then be used for the erection of a modern urban settlement, plans for which have been mapped out, complete with schools, recreation centres etc.

Floating Field

Another scheme for an airfield (not studied yet in connection with Hongkong), and the ideal solution to the problem, is the building of a floating aerodrome. British and American research has developed such floating fields for the use in the Atlantic, and the application of wartime experience and achievement ought to stimulate civil aeronautical planning. The advantages would be inestimable since such floating field could be brought near to the Island so that the question of communication from airfield to the business centre of Hongkong would not come up at all. Furthermore it would obviate demonstrations from Chinese patriots who otherwise can be relied upon for clamorous meetings in Nanking and working the telegraph overtime. Behind previous protests was concealed the competitor's jealousy; if Hongkong is to have a modern airport then Canton could enjoy only secondary position.

However, Hongkong being one of the biggest sea ports in the world, is destined to become one of the most important air ports as well. In the near future regular air communications will connect the U.S. via the Pacific, with the Far East, Indian Ocean, up to and beyond Suez. British planes will, stopping over at Hongkong and Manila, land in California.

MACAO'S FINANCE & TRADE

By PEDRO JOSE LOPEZ

In the Far East, there is a strip of land situated at 22°, 11', 45" Lt. N. and 11°, 32', 39" Lg. E. Gr., known as the "City of the Name of God" where, during the trying years of the last Great War, thousands of refugees found shelter, hospitality, and peace.

This Portuguese Colony rendered valuable cooperation and made strenuous efforts to favour the Cause of Humanity by assisting every one without distinction of nationality, creed or political ideologies.

Thus, the "City of the Name of God" became the Haven of the distressed and poor who, having suffered the hardships imposed on them by the War, sought refuge in this place of safety.

Revenues

Attacks on the Colony's source of revenue and accusations against the Portuguese Administration concerning opium and gambling monopolies have been largely carried out by many writers but in fact opium revenue had greatly decreased to the low figure of \$800,000 and gambling tax to \$1,200,000 a year, while the Colony's expenditures reach the high sum of \$8,000,000.

The foregoing will undoubtedly lead to the conclusion that Macao was not living exclusively on the resources of these two monopolies and consequently taxes and duties of quite different nature are collected to meet the expenses of the Colony's Administration.

Even if for the sake of argument one would admit that the exploitation of these monopolies has, to a certain extent, contributed to the Colony's revenue, however it could not be denied that, whatever might have been the sums collected, every cent of it has been spent for maintenance of refugees and poor people, social work and public charity.

Large sums have been spent by the Colony in the last four years for social and charitable works which totalled \$10,000,000 as compared with \$8,000,000 collected from the two monopolies.

It is at present estimated that the total revenue of this Colony amounts to \$9,738,000 as follows:

(a) Direct Taxes	\$1,575,530
(b) Indirect Taxes	620,040
(c) Consumption Duties (Tobacco, wines, etc.)	992,760
(d) Revenues derived from public services	1,003,100
(e) Monopolies, Post and Telegraph, Lands, etc.	3,324,961
(f) Social Work Tax ...	340,000
(g) Sundries	1,981,609

TOTAL \$9,738,000

It is to be clearly understood that opium is no more a source of revenue as its importation, preparation, distribution and sale have been entirely suppressed.

Gambling yields only \$1,200,000 which represents 1/8 of the total estimated revenue of the Colony.

Industries & Trade

These figures will lead to the conclusion that the Colony is doing its best to develop the trade and industries already established, such as fishing, cigarettes manufactory, matches, fire crackers, Chinese wines, knitting factories, vegetable oils, and joss sticks, and to facilitate the establishment of new enterprises in order to provide the Treasury with further revenue to meet the increasing Government expenditures.

The imports in 1945 totalled \$51,805,000 and exports \$25,803,000, while in prewar, the value of imports was about \$30,000,000 and exports \$20,000,000.

The commodities imported and exported in 1945 were valued at prewar prices, so as to enable us to make a clear idea of the increase that took place in the Colony's trade when the war was over.

Banking

The note circulation of the Banco Nacional Ultramarino (a state bank) has gradually followed the trade increase and from prewar \$1,000,000 went up to \$28,000,000, more than fully covered by the required legal monetary reserve.

Deposits in the local banks have during the last four years increased by \$10,000,000. The total reaches now about 15 millions.

Deposits and note circulation of Banco Nacional Ultramarino:

	Deposits	Bank notes
January 1946	\$4,086,481	\$25,167,666
February	4,349,514	24,882,809
March	4,711,980	24,135,263
In 1945 highest figure for		
Deposits	\$ 5,383,921	
Bank notes	28,102,875	

The population of the Colony which was estimated at 500,000 during the period of the war has decreased to 200,000 at the present day.

The sanitary condition of the city is satisfactory and mortality has decreased to a very low rate which is recorded at the average figure of 5 per day.

Friendly Relations

The Colony maintains friendly relations with the neighbouring countries and it should be emphasized that the co-operation and assistance which Hongkong, Canton and Chinshan District have rendered to Macao are deeply appreciated.

Needless to say that the foreign communities of this city have endeavoured through their persuasion and conduct to keep this place always in peace, and their cordial relations with the Portuguese citizens have made possible the good understanding which at present exists. Without such friendly understanding it would have been very difficult to face the situation originated by the last Great War which on many occasions has led the local Administration to take steps at times unfavourable to individuals but unquestionably necessary for the interests of the community.

The scarcity of foodstuffs and lack of sea transportation came as one of the most difficult problems to be solved, but the assistance and cooperation from those who could in some way relieve the anxieties of the population were immediately placed at the disposal of the local Administration in order to render possible the supply of bottoms and importation of foodstuffs.

The Governor of Macao, Commander Teixeira, in appreciating the splendid work and assistance rendered by many residents and members of foreign communities, stated recently that the survival of Macao was not due to the task of one man only but of many who, in spite of their hardships, caused by the effects of the war, have willingly given their service to the Administration for the benefit of the whole population.

America's Dilemma

In China

China has just celebrated her 35th anniversary of the founding of the Republic. The following implications of the situation in China are clearly and lucidly outlined in the following article of "The Economist", London.

"There is nothing left to talk about" was the comment of a Nanking official recently on the negotiations which have been going on intermittently between the Chinese Government and the Communists, almost as long as anyone can remember. By the end of the third week in July reports of large-scale fighting from several parts of China left no doubt that the topics on which the resources of conversation had been exhausted without result were being referred to decision on the battlefield. There had never, indeed, been complete observance of the civil war truce in China proper, and the temporary truce in Manchuria had expired without any arrangement for renewal. But there had been a sufficient degree of military inactivity, except in Manchuria, to give some ground for hope that a political settlement would at last be reached and further civil war averted. Such expectations have been disappointed, and China now appears to be entering on a period of fresh civil strife which may lead to unexpected complications of far-reaching international significance.

The present situation must be particularly disappointing for General Marshall, who was entrusted by President Truman with a diplomatic assignment to China for the special purpose of mediating between the Government and the Communists. He was chosen for his high military rank and personal qualities rather than for any experience in traversing the quicksands of Chinese politics; some spectacular gesture was required after the shock of General Hurley's resignation, and Marshall, not having previously been involved in the controversies over policy towards China, was thought to be an excellent choice. In the outcome, Marshall has been no more successful than Hurley; like Hurley, he set out hopefully and has vainly pursued an objective ever eluding him as a mirage in the desert.

Dr. Leighton Stuart

His successor in the key position of American Ambassador in Nanking is Dr. Leighton Stuart, who is no more a career diplomat than Hurley or Marshall, but is a civilian and an "old China hand" of a special American type. He was born in China in 1878 and has worked as a Presbyterian missionary in China since 1905; in 1919 he became president of Yenching University, the most important of the educational institutions due to American initiative in China. He holds the Special First Class Order of Merit of the Chinese Republic and has written a commentary in Chinese on the Apocalypse—which seems to imply a certain spiritual preparation for the Atomic Age.

China's Problems

But although personalities are important in the present crisis, the issues involved far transcend any personal factors. China is a country with proud national traditions, but "backward" by modern economic standards and militarily weak; which has certain social features of the kind Marxists call "feudal" and a population mostly poverty-stricken, mainly rural and largely illiterate; which discarded autocratic monarchy for a republic thirty-four years ago and is still without habits of civil liberty or parliamentary government; which has been greatly dependent in the past on foreign capital investment and foreign loans, and has been frequently subjected to "imperialist" encroachment; which has developed an acute nationalist sensitiveness and distrust of foreigners; which has a seaboard open to the oceanic commerce of Western Europe and

Macao had the opportunity of receiving many distinguished visitors once peace came back to the world, and among them was a War Correspondent and writer. His personal opinion about Macao has been placed on record and it is summarized thus: "City of Peace and Beauty".

Senior Lobo has been for three decades in government service; for several years past he held, besides many other positions, the post of Director of Economic Services, Macao. The author is very popular in Hong Kong where he concurrently represents the Banco Nacional Ultramarino.

North America and a long land frontier with the Soviet Union; which was an Ally during the war and had a resistance movement split between the adherents of the established Government and separate guerrilla formations led by Communists. The wartime and post-war internal conflict in China has many points of resemblance with the struggles which have taken place in Poland, Yugoslavia and Greece, while in certain respects the recent course of events in Persia is also analogous. In all such countries the Communists are identified with a foreign policy of motion in the "Soviet orbit," while the Western Powers either disinterest themselves more or less unwillingly and recognise Communist ascendancy or, alternatively, support anti-Communist political forces in order to counteract the pull towards Moscow.

Between Washington and Moscow

This ranging of Great Powers in relation to the internal strife of weak intermediate countries is not only capable of producing the most dangerous crises at the highest level of international affairs; it also involves—on the side of the Western democracies, though not of Russia—an acute dilemma of political conscience. For though Russia and Britain or America—in China it is to-day America which first and foremost represents the West—are rivals for influence, they compete with very different degrees of single-mindedness. In Moscow there may be behind the scenes controversies and changes of mind about tactics to be adopted, but not only is foreign policy made by the ruling Communist party without public opposition or criticism; it is an axiom that Communist parties abroad ought to be supported as far as is expedient. Democratic ideology, on the other hand, does not indicate support for any particular party, but only political freedom for all parties; nor, indeed, are there parties in the countries concerned which are pro-British or pro-American as part of their faith in the way Communists are pro-Soviet. At the same time democracies, just because they tolerate divergence of opinion, are divided in their sympathies; the Left in Britain or America (not only actual Communists) tends to be on the side of Communists in Eastern Europe or Asia, because of their social programmes, which are the more attractive for their contrast with the poverty, corruption and oppression of the traditional background. When it comes to actual official policy, therefore, a British or American Government is in a difficult position; it wishes to find some counterweight to the influence of Moscow, and seeks a political force which is both democratic by faith and practice and effectively organised. But where is such a force to be found in a country which has no democratic or parliamentary traditions and suffers from all the social strains and stresses of a backward economy. Inevitably policy tends towards reliance on forces which can fairly be called "reactionary" or even "Fascist." But even if official quarters come to accept such a position under pressure of *raison d'état*, public opinion is uneasy and rebellious.

Kuomintang vs. Communists

In China the problem presents itself in a particularly acute form, because the existing Chinese Government rests on no foundation of democratic legitimacy and represents a party which has achieved an ill reputation for corruption and misrule even among foreigners of the most conservative views. By contrast the Chinese Communists have won notable tributes from foreign observers for decent and progressive administration in the areas they control. Yet there can be no doubt but that the Chinese Communists, in spite of the fashion for spelling them with inverted commas, are ideologically genuine Communists, as far as the party cadres are concerned, and the collusive actions by which they established their power in Manchuria under the Russian occupation have deeply disillusioned American observers who were inclined to believe during the war that they really had no links with Russia. It is clear that the attitude of official America towards the Chinese Communists has hardened during the past year, and that they are by this time considered to be irrevocably on the other side of the fence in the duel for influence between Washington and Moscow. But what is there to set against them? Washington would quite sincerely prefer a real democratic parliamentary system in which the Communists would have equal political rights with other parties. But there is no Parliament, there is no electorate; there is not even a reliable estimate of China's population, let alone such thing as an electoral register. There are only armies and generals, politicians and party organisations, and beyond them the vast amorphous masses, millions of whom are at the moment suffer-

DEPRECIATION OF CN\$

After Chinese dollar's second official depreciation in 1946, promulgated middle of August, no stabilisation of the exchange position could be noticed. On the contrary, there crop up more and more substantiated rumours about an impending third depreciation of CN\$. Economic instability continues unabated which engenders financial uncertainty. The extent of monetary inflation is unknown but generally assumed to be increasing ever more and at more rapid speed; government is engaged in civil war operations and notwithstanding U.S. financial assistance does not derive sufficient revenue from the people to cover ever increasing expenses for its huge bureaucratic army and the military.

The first CN\$ devaluation by government came on March 5, 1946 when the official rate of US\$ was fixed to CN\$2,020, backed by a currency reserve fund of US\$500 millions. This fund was quickly nearing exhaustion, a development accelerated by heavy cotton imports. On August 16, Nanking could not but revise the official exchange rate again, to CN\$3,350; however, imported goods, native raw materials, labour and services were quickly in following the lead given by appreciated foreign exchange. As yet prices in Shanghai have not fully caught up with the higher valued US\$ but they are, on the whole, not far from attaining, and in some cases overtaking, that goal. US\$ appreciated on August 16 by 65% while presently commodity prices are about 40% higher than in mid-August.

Remittances from Abroad

are sometimes regarded as a temporary remedy so as to delay the unfailing process of CN\$ depreciation. In prewar years Chinese overseas merchants were actively contributing to balancing China's very unfavourable trade but the depredations of war have also impoverished wide circles of previously financially potent overseas Chinese in Asia; and there is also less fervour noticed among the rich in Singapore to save every penny for remittance to China. Political education

and experiences during the last few years, especially after V-J day, have not encouraged overseas Chinese remittances.

Chinese in U.S., Canada and some Latin American states do now contribute almost exclusively to China's foreign exchange reserve. Hearing of so many public appeals and solicitations emanating from Nanking about larger remittances one is led to assume that the total received from American Chinese is not very satisfactory. During 1946 such remittances will at best reach US\$100 millions, out of which Nanking will have to allocate foreign exchange loans to needy Far Eastern overseas Chinese. Another genuine source of US\$ supply, coming from U.S. Army and Navy spending in China, might yield around US\$100 millions. (These estimates are based on experts' calculations). In view of the enormous foreign exchange requirements by China these 200 millions are just two drops in the seemingly bottomless bucket.

A Proper Exchange Rate

could be based best on prewar relations, i.e. CN\$3.30 to the U.S. dollar, and CN\$11 for one picul of rice. Today's official US\$ price is one thousand times higher while rice, costing now approx. CN\$60,000, and many other staple commodities are over 5,000 times higher. Even if one takes into consideration a certain depreciation of US\$ (which is according to latest Washington statistics: 31% for average; coal, light 11%, food 42%, clothing 54%), higher standard of living in some Chinese cities, taxation and "squeezes", the worst possible rate for one US\$ ought to be now CN\$7,000 (or about CN\$1,700 for one H.K. dollar). That is to say provided that the general price level prevailing now in Shanghai is not pushed up again.

Flight Capital

is the result of public distrust in the National Currency and regardless of government protests and appeals such movement will continue until an improvement in China's domestic economy can be registered. Most of China's "flight capitalists" prefer America although much of their funds in New York will not bring any attractive returns. Since V-J day flight and serious investment capital from China coming to United States (to lesser extent to other American countries) is estimated at over US\$250 millions. Shortly before the outbreak of the Pacific War Chinese holdings in U.S. were given, by U.S. Treasury officials, at around US\$300. This figure was believed to have been an underestimate. During the war, many Chinese merchants but more prominently officials in Chungking transferred some of their profits to America which were estimated at between US\$150 to 200 millions. Total Chinese capital, idle or invested, in U.S. may now reach about US\$700 to 750 millions. An American economist, recently touring Hong Kong and China, estimated that a far higher total of Chinese capital was now in U.S.

Hong Kong's Share

in the recent capital flight particularly from Shanghai is rather insignificant, variously estimated at (lowest) HK\$10 to (highest) 30 millions. Shanghai billionaires have found Hong Kong convenient from one special angle, i.e. no formalities regarding entry into the Colony are required. When Hongkong's position became more normalised, after January 1946, some Shanghai capital first found its way down here. Time and again some political arguments and

ing from famine. There is the Democratic League, the middle-of-the-road party on which high hopes have been set, but it has so far shown no evidence of strength and two of its leaders have just been assassinated. In practice, the issue is: the Kuomintang or the Communists. If the Americans do not want the Communists, they must back Chiang Kai-shek. He is no longer regarded in the United States as the Christian hero who was once boosted to fantastic heights of admiration; it is dimly realised that his spiritual kinship is with Richelieu rather than with Abraham Lincoln. But such as he is, he heads the internationally recognised Government, and it is for his armies that American training, equipment, transport and supplies are provided. Subtle, patient, persistent and implacable, he takes all that America gives, but he is not controlled by American advice. He doubtless believes that in the last resort the Americans cannot afford to let him down, and considers that his chances in a renewed civil war are good. The Communists have, moreover, played into his hands by their stonewalling in negotiation and their anti-American tirades.

Nevertheless, there will be much searching of heart in America if the present military operations grow into extensive and protracted warfare. This is the outcome which Americans have desired to avoid, and, now it has come, it must bring a deep sense of frustration and also of alarm. American official policy seems now too far committed to be reversed, but championship of the existing Kuomintang regime will be far from popular. And the possibility of fresh Russian intervention on the other side, at least in Manchuria, cannot be ruled out.

Compulsory Conversion of Foreign Currencies in China

A New Currency for China?

The first indication that the Chinese government wanted to convert by compulsion all US\$ and other foreign currencies held by Chinese nationals and foreign residents in Chinese and foreign banks came about nine months ago. American banks and their clients were well prepared for this action especially since during September several Central Bank of China releases were alerting all those depositors who had foreign currency accounts with any "Appointed Bank" (meaning Chinese and foreign banks

permitted by the Chinese government to transact foreign currency business, i.e. practically every bank of some standing). Such depositors were reminded that as from October 1, they will have to convert US\$ into CN\$ at the Central Bank's T.T. rate (CN\$3,300 per one US\$). It was never explained what rate would apply with regard to holdings in sterling, HK\$, etc., since there does not exist an official rate in China for foreign currencies but the US\$. The official announcement came in a circular letter (No. 35, date September 30, 1946) under the name of Central Bank of China.

Chinese newspaper "campaigns" made it appear as if Hongkong's security, after all, might not be such as to induce large-scale Shanghai investments here. However, the impression of "friendly Sino-British relations" prevailed mostly. Reasons most frequently given by the "fapi-billionaires" for their capital flight are: mounting taxation, even more "squeezes", unprofitable manufacturing, black-market underselling of legitimate business firms, political anxieties, police high-handedness, civic insecurity (also regarding Chinese Courts). However, much money came here for speculative purposes only such as to engage in smuggling trade (often in conjunction with Army and government officials), transactions on bullion and exchange markets, arbitrage, etc. Some capital arrived here only in transit, waiting for investment or business chances in Malaya, Siam and elsewhere. Most of Shanghai's billions transferred to Hongkong are "hot money", not even intending to engage in legitimate business enterprise or real estate investment. Some local native banks pay rather high interest to the flight billionaires in order to operate with their money on local financial markets. Among the recent influx of Chinese capital to the Colony were rumoured to be several millions belonging to important Chinese leaders and ex-warlords.

The Mid-August CN\$ Depreciation

has somewhat stepped up all-round capital flight, and Hongkong became quite a fashionable meeting place for especially Shanghai's nouveaux riches. Certain Chinese semi-official personages suggested to British authorities that Hongkong ought not permit such conditions. Why and how was not elucidated, however.

From recently arrived Shanghai financiers' reports one gathers with perplexion that the trend of capital flight to Hongkong is just now developing; and this although private loans will still bring a sure 16 to 18% interest per one month, with the loan to be recalled every ten days; and loans given in US\$ will yield ten per cent. per 30 days. These financiers point out that upward move of prices have largely nullified the US\$ rate adjustment of last August and that everything was almost as before. That further CN\$ "adjustments" are impending seems to be a rather common opinion; and these are people from the "spot".

The position of foreigners temporarily residing in China is not quite clear but it seems that all foreigners will have to offer for sale their foreign currency deposited with one of the "Appointed Banks".

It is evident that depositors of any nationality have taken precautions and it is therefore questionable what success this foreign exchange compulsory purchase will bring. At any rate, many millions of US\$ will be collected by Central Bank which will help providing funds for urgent imports from U.S. Nobody can, however, estimate the eventual result of this emergency action. That Chinese flight capital in U.S. is very large has been pointed out in another report elsewhere in this issue.

American Banknotes

A corollary of the compulsory conversion of US\$ deposits in China and abroad into CN\$ was the prohibition of U.S. bank note trading except at Central Bank's T.T. rate plus 5% (i.e. CN\$3,350 168 CN\$3,518). Prior to this prohibition US\$ quoted in Shanghai over CN\$4,000, reaching a maximum price of 4.500. Exchange Shops, black market brokers and the public at large ignored the order, and at present there is in operation in all major Chinese cities a proper black market quoting the American banknote around CN\$3,900 to 4,000.

Shanghai Selling Rates		
	Oct. 1	Oct. 8
U.S.	CN\$3,970	CN\$3,550
	(at Exchange Shops but only for buying; selling nominal)	
		CN\$4,000
		(black market rate)
HK\$	CN\$ 800	CN\$ 900
Gold bar		
cross rate		
per ounce US\$ 54	US\$ 54	
Highest black market rate: CN\$4,800 to 4,900.		

Exchange Shops' selling rate of £ during first ten days of October between CN\$13,500 to 14,000, amounting to a cross rate of US\$3.40-3.50 for one pound sterling.

The possession by Chinese citizens and foreign residents in China of U.S. banknotes should now be theoretically outlawed; U.S. banknote holders are supposed to have surrendered their foreign currencies at the Central Bank by September 30. Actually, the US\$ trade in Shanghai is enormous. There are more than 100 Exchange Shops and a few native banks (many of them backed by influential banking houses) who engage in the foreign banknote business. Their transactions amount daily to US\$2-4 millions besides business in other foreign currencies. Pre-war holdings of US\$ notes in Shanghai were

estimated at between US\$10 to 20 millions but especially since large U.S. Forces spending in China during and after the war the present total of American banknotes in Shanghai may exceed US\$80 to 90 millions, while in all China more than US\$100 millions is a rather general guess among Shanghai bankers. Practically all banknotes are concentrated in the hands of few Chinese families. The Shanghai Exchange Shops operate with an aggregate US\$ capital of between 4 and 5 millions. Canton's foreign exchange black market ("Sap Sam Hong") is relatively unimportant except as far as HK\$ is concerned in which probably Shanghai is not doing much more than Canton.

"Sun" Currency or What?

Chinese official statements about the inflexibility of CN\$ present rate in terms of US\$ are generally not believed. An avalanche of rumours about the future of China's currency comes down day by day, and some of these stories seem to make sense. Government announcements in the past have not been too reliable, and "once bitten twice shy".

Sometime in Spring 1947, the Chinese government will have to declare the value of CN\$ in terms of US\$, £ and French francs since China is a member of the World Bank's International Monetary Fund, and there it is a principal requirement that member countries keep their currencies at an inter-related fixed ratio (within a 10% fluctuation range). In the meantime CN\$ will remain as unstable as in the past, and even violent movements can be taken for granted. If present conditions in China do not radically change, it is rather improbable that China could maintain a fixed rate in terms of world currencies in 1947.

There were recurrent and inspired stories about the early introduction of a new Chinese currency, called the "Sun", which may be linked to US\$ either at par or at the rate of 4 Sun to US\$1 (and CN\$1,500 or 2,000 to equal one Sun which would mean that one US\$ would value CN\$6,000 or 8,000). An alternative report, also of old standing but periodically dressed up anew, states that eventually a Chinese dollar whose value will be determined in fractions of an ounce of gold may emerge. (F.i. CN\$210 ought to equal one ounce of gold, or, at the US Treasury price, US\$35). Qui vivra, verra.

China's actual revenue and expenditures, and her balance of international payments will, if publicly known, give a better clue to the understanding of the prospects of a stable Chinese currency.

In this connection there are some tentative estimates from Shanghai bankers who believe that total expenditures of the Chinese government at Nanking will exceed US\$14 billions, of which over one billion will have to be expended for Army and military operations in the civil war. Revenue for Nanking is very problematic; an equivalent of US\$500 millions would appear as the best possible result. (Of course, there is another China, the one under Yenan's control, which collects revenue, expends most of it also for Army and war operations, issues bank notes, and otherwise leads an economic life separate from China under the Kuomintang government).

(For comparison's sake U.S. budget figures are given: current expenditure estimated at US\$ 40 billions, of which Army-Navy will require 18 billions. In 1939 the U.S. expenditure was only 9 billions).

Interest Rates

In Shanghai are indicative of the insecurity felt by Chinese currency holders. In early September the unofficial rate was 15% per month, thirty days later it climbed up to 18-21% p.m. (Official bank interest rate is about 21 to 23% per year).

Foreign Exchange Position

Hongkong is a large entrepot comparable to a double funnel; most of its imports come from, and most exports go to China. This must always be borne in mind if it comes to contemplation and analysis of the Colony's trade figures. Consequently, Hongkong's foreign exchange transactions are largely conditioned upon this trade with China. The Exchange Control in Hongkong has taken this into full consideration, and therefore CN\$ transactions have remained practically uninterfered. Remittances of HK\$ from or to China are conducted freely although theoretically government could assume control just as it could be done with foreign exchange holdings in Hongkong by individuals, banks, companies since it was decreed that all foreign banknotes, drafts etc. had to be surrendered.

When China will start quoting officially £ and HK\$ it may be reasonably supposed that an official CN\$ market will commence operations here. At the moment China has only official quotation for US\$. If the Sino-British trade treaty will be signed, which cannot be expected before November, China's Central Bank will resume official relations with the currencies of the sterling area.

US\$ allotments for purchases in America are liberally given if imports can be classified as "essentials," and such commodities or raw materials cannot be bought inside the sterling area, or although purchases might be possible delivery may be slowed up very much longer than shipments from U.S. (Imports from France and her colonies, Netherlands and East Indies, Czechoslovakia, Italy and Greece are at present treated like imports from £ area. It is expected that soon more European countries will enjoy similar treatment).

The policy of exchange control throughout has been one of minimum interference with Hongkong's transit trade. Indeed, this class of trade has been encouraged as far as possible.

When it comes to non-essential goods and luxuries the importers were always able to find ample sources for their US\$ obligations, e.g.:

(1) There was in Hongkong a large probably US\$50 millions high "reserve" which accumulated prior to 1942, resulting from refugee capital and hedges against inflation anno 1941. Millions of US\$ were made available to the open market at the day's premium over the official exchange rate. These funds are far from being exhausted. Recently there were considerable additions made coming mostly from Shanghai.

(2) Overseas Chinese remittances were bought by local importers or their agents in New York.

(3) Barter trade, balancing exports to America with imports from there f.i. a cosmetics importer bought cassia in Canton against CN\$, exported it to U.S. where he sold often at cost or below cost price, in order to obtain at relatively cheap price US\$. Exporters and importers were setting up their own small "exchanges".

(4) Clearings were arranged via Shanghai.

STABILITY OF US\$ AND GOLD

ANALYSIS OF RECENT CURRENCY DEVELOPMENTS

The actions by the Canadian and Swedish Governments in raising the foreign exchange value of their currencies in order to combat inflation have served to focus fresh attention upon the problem of postwar currency relationships. The Canadian dollar, which had been at a 9 per cent discount against the United States dollar since September 1939, was restored to its traditional parity on July 5 and on July 12 the Swedish krona was raised 16 2/3 per cent from 23.8 to 27.8 cents—a little above the 26.8 cents the krona commanded up to September 1931, when the British pound broke away from gold and carried so many other currencies down with it.

These moves by Canada and Sweden have excited interest not only because of the important commercial and financial interests immediately concerned, but because of speculation as to what these steps may portend in the way of currency adjustments elsewhere. There have been rumors of currency changes by other countries, including even that the U.S. dollar may be devalued. A review, therefore, of the circumstances of the Canadian and Swedish actions seems appropriate.

The Canadian and Swedish Positions

Although Canada was a participant in the war while Sweden was not, and their wartime experiences were different in many ways, there are important similarities in the postwar positions of the two countries. The Canadian dollar and the Swedish krona, along with the U.S. dollar, Swiss franc, and a few others, are members of the select circle of currencies which emerged from the war fundamentally strong and potentially scarce.

Both Canada and Sweden have far more than recovered losses of gold and overseas assets during the early war years. Both have been attractive to foreign capital in search of investment opportunities or safety. Both have been able to grant substantial credits to war-impooverished neighbors or allies. Both have well established, efficient, and undamaged export industries, and are enjoying an apparently insatiable demand for the products of their mines, factories, and forests. These countries are in an intrinsically favorable position. This is shown by their gold and foreign exchange holdings, as follows:

Profits in trade were often very large but usually considerably higher than one had to be satisfied with in prewar years. Black market exchange rates were, therefore, never regarded as an obstacle to trade in luxuries and non-essentials.

The Exchange Control was otherwise regarded as fair by travellers and students and other people who required US\$ for their needs outside the sterling area. American moving picture distributors were regularly accommodated when their large earnings in Hongkong were remitted to New York. The same can be said of the two American oil companies whose sales here bring very large totals.

Gold and Foreign Exchange Resources of Canada and Sweden

	Canada Gold and U.S. Dollars	Sweden Gold	Sweden Foreign Exchange
Dec. 31, 1939	404	308	84
1941	188	223	211
1943	650	387	172
1945	1,508	482	210
June 29, 1946	473	305	

From the standpoint of price behavior also, the two countries show similarities. While both experienced substantial price increases during the early stages of the war costs and retail prices of home-produced commodities have, since 1942, been held relatively steady, partly by price controls and subsidies, but more fundamentally by sound government finance and self-restraints on the part of industry, labor, and agriculture in demanding higher prices and incomes.

Trends of Prices and Cost of Living in Canada, Sweden, United Kingdom, and the United States (1935-39=100)

	1939	1942	1946	May Recent trend
Wholesale prices				
Canada	98	124	141	Rising
Sweden	106	174	171	Steady
United Kingdom	104	161	174	Rising
United States ...	96	123	138	Rising
Cost of living				
Canada	102	117	122	Rising
Sweden	105	146	148	Steady
United Kingdom	104	132	135	Steady
United States ...	99	116	132	Rising

An Anti-Inflation Move

With their strong monetary and exchange position, and their success in "holding the line" against inflation at home, these countries have resorted to currency up-valuation as a measure for protection against rising external prices.

By up-valuing their currencies, the Canadians and Swedes automatically reduce the cost of imported goods and offset, in some degree at least, the effect of rising prices abroad. While the higher exchange rates make exports more expensive to foreign buyers, some tempering of foreign demand may not be considered inopportune at a time when the export industries are already pushed to capacity and goods scarcities are contributing to inflationary pressures.

As a matter of fact, in the kind of sellers' market that exists in the world today, foreign buyers of Canadian and Swedish products are not likely to find a moderate rise in costs much of a barrier. So long as present conditions last, Canada and Sweden are in a good position to enjoy the advantages of the lower import prices that come from higher exchange rates, without at the same time incurring much risk of serious falling off in exports, due to overpricing.

The real test, of course, will come when war-racked nations temporarily out of the export race are able to resume active international trading, and when countries with overvalued currencies bring their prices or exchange rates down. At that time countries which have up-valued their currencies may find themselves subjected to keen competitive pressure. It was with this thought in mind, that the Canadian Government retained the right to make later changes in the exchange rate.

While the International Monetary Fund provided by the Bretton Woods Agreements is not yet in operation (and Sweden is not a member), the up-valuation of the Canadian and Swedish rates raises an interesting question as to how changes of this character would be dealt with

under Article IV of the Fund, which requires approval of currency changes "to correct a fundamental disequilibrium." In view of all the dire predictions during the Bretton Woods discussions of a postwar race of currency devaluation, it is somewhat ironic to find people talking now about a possible race of currency up-valuation.

Will Other Countries Follow Suit?

That some other countries may follow the example of Canada and Sweden is of course possible, particularly if prices in U.S. continue to rise; but that the movement will become at all general seems highly unlikely. Not many countries are in a position to indulge in similar exchange experimentation. Switzerland, a possible "up-valuator", has no such intention, according to a statement by the president of the Swiss National Bank.

Of greatest importance, undoubtedly, is what happens to the £; and here too the rumor factory has been busy and has brought forth reported official denial of any impending change. This denial is supported by the logic of the situation. While the British are concerned about rising American prices, and might temporarily benefit from a higher value on the pound, their balance of payments problem is so acute as to render up-valuation a doubtful expedient even for the short run, to say nothing of the difficulties to be envisioned with revival of international competition. The position of the pound is altogether different from that of the Canadian dollar and the Swedish krona.

Moreover, while there is nothing in the published text of the Anglo-American Loan Agreement that would preclude up-valuation of the pound, it is doubtful that the British Government would consider such action appropriate so soon after the loan was put through.

Effects in the U. S.

The actions by Canada and Sweden mean that the United States will have to pay more for what she buys from them (Canadian newsprint and lumber, Swedish wood pulp and steel, etc.) where exporters in those countries are able to make additional charges to compensate for the loss they would otherwise sustain in converting U.S. dollars back into their own currencies. Demand for U.S. exports may be somewhat stimulated not only in Canada and Sweden, but also by some diversion of inquiry by other countries from Canada and Sweden to the United States. Individuals and businesses having investments in Canada and Sweden will benefit to the extent that they are able to convert the proceeds at more advantageous exchange rates.

The U. S. Gold Price

One effect of the up-valuation moves has been to stir up a flock of new rumors about the stability of the U.S. dollar in relation to gold. While no one has seriously suggested that we ought to follow the example of Canada and Sweden and up-value the dollar, there has been some renewed talk of the dollar being devalued.

It may be timely, therefore, to call attention to the fact that the former power of the President to change the gold content of the dollar lapsed on June 30, 1943. While it is true that a clause in the Gold Reserve Act of 1934 authorizes the Secretary of the Treasury to buy and sell gold without restriction as to price, there is a good deal of question as to the exercise of this power in the face of the Congressional decision to allow the President's devaluation power to expire.

The U.S. dollar is one of the main elements of stability in the world to-day, and the cornerstone of all efforts at international monetary collaboration. Any departure of the United States from the stable currency policy pursued since 1934 would be a tragic setback to the progress of world recovery.

From time to time reports of gold selling in various markets of the Middle East, and India at prices ranging as high as \$90 an ounce have been cited as evidence that the dollar is already depreciated. It should be understood, however, that these are strictly limited markets, due to the barriers placed upon gold movements by governments and to the operation of exchange controls. Were gold permitted to move in freely and exchange traders able to get their money out, these markets would be soon glutted and the gold premiums disappear.

Actually, the gold prices quoted in these markets are not in dollars, but in Egyptian pounds, Indian rupees, etc. which are not freely convertible into dollars. They therefore do not represent a dollar price, but simply a price equivalent based on the officially controlled exchange rate.

STOCK & SHARE BUSINESS

Regular business on Hongkong's Stock Exchange is not expected to open before the latter part of November. Meanwhile, unofficial trading in local and foreign stocks and shares continues as has been the case since the end of war. Government have imposed a number of restrictions which are observed by all share brokers but not completely conformed with by black market operators and a considerable number of the speculating public.

A certain amount of share business which is permitted by the Registrar of Companies is regularly going on. The most important requisite for the re-opening of the Stock Exchange is the lifting of the Moratorium, and when this will be achieved, possibly sometime in November, normal financial conditions in Hongkong can be re-established. Meanwhile, it is expected, all Public Companies will have completed their records of shareholders which during the war years were either destroyed or otherwise disappeared. Most records have already been re-established and within one or two months at most the remaining registers will be completed.

The Two Local Brokers' Organisations

will, by the time of the re-opening of the Exchange, have amalgamated. At present there are negotiations underway and it is not doubted that the two bodies, Hongkong Stock Exchange and Hongkong Sharebrokers Association, will soon agree on the terms of the proposed amalgamation. The new Stock Exchange will comprise 60 brokers, thirty of each organisation.

The original exchange in Hongkong was the Stock Exchange; the Sharebrokers Association was started a number of years ago by several brokers who could not obtain membership of the Stock Exchange.

At the moment about half of the brokers are here, the rest is expected soon back in the Colony or, if some may choose to stay abroad, to sell their seats.

Government Licence

It will be in the public interest if members of the Exchange will be licensed by government because only then irresponsible operators can be prevented from starting mushroom exchanges. This point is particularly important in view of the expected expansion of business on the Hongkong Stock Exchange after the Moratorium has been lifted.

Sound Position

Of the shares traded in most frequently the following are conspicuous: Public Utilities, China Provident, Industrials, Land companies, Hotels, Dairy Farm and Watsons. Demand for these shares is rather strong. The very conservative policy followed by almost all local companies has been recognised as the source of their business successes; nearly all Hongkong companies met their war losses from their reserves which is a good reflection on the way the Colony's companies have been run. Most of local companies are under-capitalised, and it should be considered whether capital ought not to be increased so as to keep it more in line with the assets. Business of practically all local companies is very good and prospects for even better business are bright. One can safely predict further gradual rises in share values especially after opening of the Stock Exchange for official transactions.

Chinese Shares

Beside local shares there has been, initiated mostly by Chinese from Shanghai, considerable trading in Chinese shares as quoted on the Shanghai "Securities Exchange". The favourites of Shanghai are also the favourites of Hongkong's unofficial Chinese share market (with Wing On Mill leading). Quotations are in line with Shanghai. Chinese government bonds, especially bond "C", are also traded here but are, just as in case of Shanghai shares, more or less in the hands of Chinese operators and speculators who have, in many cases, to accommodate the flight billionaires from Shanghai. Chinese loans are not quoted here at the moment but after the official Exchange will start transactions they will most likely be registered with the Exchange. The same can be said of many Chinese shares. A number of leading Chinese companies have made enquiries in this respect.

Rubber Shares

A large number of British companies of Shanghai are being registered here and their shares will be quoted after the Hongkong Exchange opens. It is particularly this addition to Hongkong's share transactions which will lead to a considerable increase in turnover and will also benefit the Colony's revenue in no small way.

Rubber shares will play the most important part among these British shares (traded before 1942 on the British-registered Shanghai Stock Exchange). The unofficial market quotes some British shares (like Ewo, Wheellochs, many Rubbers, etc.). No transactions in Manila and New York stocks and shares take place at the moment but they will also, in due course, be traded in locally.

On account of developments in the Shanghai share market, a consequence of the foreign powers' relinquishment of extraterritorial rights and the assumption of Chinese financial control over Shanghai, the Hongkong Stock Exchange will enjoy an unprecedented opportunity for expansion of transactions. The early resumption of share business here is, therefore, eagerly awaited by the public at large.

Quotations:

	1946	1946
	Dec. 6, 1941	Middle of Sept. 12
H.K. Govt. 4% Loan	\$104 $\frac{1}{2}$	\$105
H.K. Govt. 3 $\frac{1}{2}$ % Loan (1934) ...	100	100
H.K. Govt. 3 $\frac{1}{2}$ % Loan (1940) ...	—	—
Banks		
Hong Kong Banks	\$1,445	\$1,430
(Lon. Reg.)	£76 $\frac{1}{2}$	£68
Hong Kong Banks (H.K. Reg.)	£83	—
Chartered Bank	£94	—
Mer. Bank "A" & "B"	£281/8	—
Mer. Bank "C" ... £125/8	—	—
Bank of East Asia	\$77	\$115
Insurances		
Canton Insurance	\$250	\$350
Union Insurance	4 $\frac{1}{2}$ 0	610
China Underwriters	50 cts.	75 cts.
H.K. Fire Insurance	\$200	\$275
Shipping		
Douglas S.S. Co.	\$120	\$200
H.K. & M. Steam boats	11	10
Indo-Chinas (Pref.)	100	200
Indo-Chinas (Defd.)	110	—
Shells (Bearer)	63/1id	—
Union Waterboats	\$6.55	7
Docks, Wharves & Godowns		12
H.K. & Kowloon Wharves	—	—
H.K. & Whampoa Docks	19.40	17
China Providents	7.80	12
	12 $\frac{1}{2}$	12 $\frac{1}{2}$

FINANCIAL NOTES

Bank Clearings

The considerable increase in business transactions in the Colony can be seen from the continual rise in local bank clearings during 1946.

Month	Clearing amount	Increase in %
January	HK\$ 60,722,900	
February	87,949,039	44.8
March	124,577,533	41.6
April	154,761,514	24.3
May	213,387,571	37.9
June	236,118,933	10.65
July	278,516,201	17.96
August	331,040,083	18.88

Bank clearings in October, November and December 1945 were respectively: \$219,013, \$2,605,394, and \$16,492,335.

American Loans and Gifts

China has so far received the following loans or gifts from the United States:

Total lend-lease: US\$2 billions, of which over \$1.4 billions were given after V-J day. (Of all Allies only China obtained supplies ex lend-lease after the end of Pacific war). One loan of \$500 millions was given; another one is expected to be lent by the Export-Import Bank before end of 1946; this loan has originally been allocated on the understanding that General Marshall will give his approval if conditions in China become more normal. In spite of deterioration of internal politics, China will secure Marshall's permission because of pressure from Washington. The U.S. surplus disposal deal of Western Pacific stores and installations in China amounted to \$825 millions.

Quotations—Continued			
	Dec. 8, 1946	Middle 1946	Oct. 1946
	1941	or Sept.	12
Mining			
Kailan Mining Adm.	13/6d	—	—
Raubs	\$6.90	\$2.50	—
Lands, Hotels & Buildings			
H.K. & Shanghai			
Hotels	\$44	\$12.50	\$14
Hong Kong Lands	38.15	68	83½
Hong Kong Lands 4% Deb.	98½	—	100
Humphreys Estates	8½	17	17½
H.K. Realties	4.30	13	14½
Chinese Estates	102	130	—
Public Utilities			
H.K. Tramways	\$18	\$25	\$27½
Peak Trams (Old)	6½	6	6½
Peak Trams (New)	3½	3	—
Star Ferries	55	60	62
Yaumati Ferries	23½	26	26
China Lights (Old)	6.90	10	11½
China Lights (New)	3.60	—	6½
H.K. Electrics (Old)	22½	30	33
H.K. Electrics (New)	22	—	—
Macao Electrics	18½	23	21
Sandskan Lights	12.60	—	—
H. K. Telephones (Old)	25½	32	34
H. K. Telephones (New)	9½	17	19½
Industries			
Canton Ices	\$1	75 cts.	—
Cements	18.30	\$15	\$16½
H.K. Ropes	11½	12	12½
Stores, etc.			
Dairy Farms	\$19	\$27	\$37½
Watsons	14½	17½	22
Lane, Crawfords	8	17½	21
Sinceres	3.70	—	—
Wing On, H.K.	39	—	—
Wm. Powells	2.40	—	3
Miscellaneous			
China Entertainments	\$6.90	\$17½	\$26
Hong Kong Constructions (Old)	1.80	—	4
Hong Kong Constructions (New)	50 cts.	—	—
Vibro Piling	\$7.20	—	—
Marsman Inv. London	7/3d	—	—
Marsman Inv. H.K. 1/6d	—	—	—

The following companies have held ordinary meetings since the end of war, i.e. after September 1945:

Hong Kong and Shanghai Banking Corp.
Hong Kong Tramways, Ltd.
Hong Kong and Whampoa Dock Co., Ltd.
Dairy Farm, Ice & Cold Storage Co., Ltd.
Hong Kong Realty and Trust Co., Ltd.
Hong Kong Land Investment and Agency Co., Ltd.
Macao Electric Lighting Co., Ltd.
Hong Kong Electric Co., Ltd.
The "Star" Ferry Co., Ltd.
Hongkong & Shanghai Hotels, Ltd.

There was no change of capital and no dividends were paid.

The American part of UNRRA supplies to China will exceed \$600 millions. Much of these supplies and goods obtained out of the \$500 loan and the surplus disposal, U.S. officials charge, have been diverted by private interests to the detriment of public and government.

Total U.S. assistance to China comes up to almost U.S.\$4 billions.

The Communist government of Yenan stated that first cost values of U.S. surplus to be given to China amounts to US\$2 billions. They also announced that lend-lease supplies up to October 1, 1945, amounted to \$631 millions, while from this date to July 1946, lend-lease aggregated \$1,335 millions.

Overseas Chinese Rehabilitation Loan

The Chinese government has allocated a large amount in US\$ for rehabilitation of overseas Chinese in Malaya, Burma, East Indies, Siam, Indochina, Philippines and Hong Kong. The Central Bank of China is the loan issuing bank and where, like in Hong Kong, there is no branch office, the Bank of China will act in its stead. Hong Kong Chinese merchants and manufacturers received US\$1 million (HK\$4 million) at 3% p.a. which is half the current bank's interest rate. Individuals obtained a maximum loan of HK\$4,000 against shop guarantee, manufacturers' maximum loans amount to \$40,000 against security.

Members of Hongkong Chinese Manufacturers' Association, about 250, obtained together HK\$500,000, while the other half million goes to merchants and individuals. The Chinese Chamber of Commerce advises on allotments.

Several overseas Chinese leaders, especially Tan Kah-kee, prominent industrialist in Malaya, have previously doubted Nanking announcements regarding this loan, and have pointed out the political implication of sharing out large sums in foreign exchange at a time when China's currency steadily depreciates.

Remittances from Chinese in Singapore, Batavia, Bangkok, Manila, Indochina and Hong Kong have been much reduced owing to the damages suffered during the war. For all practical purposes remittances from these areas are of no importance at present but will with progress of rehabilitation again form a good source for foreign exchange funds of China.

The New Way of Investments in China

Westinghouse Electric International Corporation has concluded an agreement with the Chinese government (National Resources Commission) which is original and seems to look like a solution to many big investment plans provided confidence is established. Westinghouse will build an electrical manufacturing plant in China with its own machinery, production processes and engineers, total cost will amount to US\$35 millions.

China will pay for this plant in lump sums during ten years, and for another ten years royalties on the products will be remitted to Westinghouse.

It was realised by the American corporation that there are unusual risks involved in establishing so large an industry, the operation and success of which depend on engineers and managers of high technical skill. Provided that American staff will operate the plant for the duration of the agreement, i.e. 20 years, there is no reasonable doubt that creditor and debtor will be satisfied.

Government Expenditure

The budget of the Colony for the fiscal year ending March 31, 1947, amounts to HK\$161,871,976.

Specified expenditure is as follows:

H.E. The Governor	HK\$ 161,809
Colonial Secretariat and Legislature	477,112
Audit Department	134,802
Charitable Services	155,745
Hong Kong Volunteer Defence Corps	73,682
Hong Kong Naval Volunteer Force	8,286
District Office, North	106,311
District Office, South	59,756
Education Department	6,392,275
Fire Brigade	774,940
Harbour Department	8,864,993
Air Services	310,490
Imports and Exports Office	595,218
Supreme Court	245,439
Magistracy, Hong Kong	81,905

Magistracy, Kowloon	65,412
Kowloon Canton Railway	11,085,835
Legal Department	333,532
Medical Department	10,711,380
Miscellaneous Services	62,837,771
Pensions	4,115,000
Police Force	5,849,189
Post Office	908,585
Telecommunications	767,644
Broadcasting	174,848
Prisons Department	1,653,120
Public Works Department	2,888,996
Public Works Recurrent	6,189,398
Public Works Extraordinary	16,127,000
Royal Observatory	376,735
Sanitary Department	3,017,987
Secretariat for Chinese Affairs	135,808
Labour Office	96,989
Stores Department	8,730,017
Treasury	1,279,592
Development Secretariat	1,993,267
Press Relations Office	51,686
Quartering Commandant's Office	42,552
Relief Services	2,087,850
Reparations Claims Office	24,040
Supplies, Trade and Industry Department	1,283,300
Custodian of Property	801,700
TOTAL	HK\$161,871,976

No Devaluations

World-wide rumours and inspired campaigns were recently stepped up against US\$, £, and French franc. The U.S. Treasury, has been prompted to deny that devaluation of the US\$ is contemplated; the present gold price of US\$35 per ounce will remain in force. A British government spokesman has also emphasised that sterling will not be changed in terms of gold or foreign exchange. The French franc was under particularly heavy rumour assault reminding of the speculation against the franc in 1928. Billions of francs have been recently sold short in the expectation of drastic devaluation. The French government has now declared that no change of the currency will be considered. The stability of the franc which ought to be achieved soon will also have its repercussions on the heavily undervalued Indochina Piastre. There were also, with little confidence in its truth on the part of mostly Chinese exchange gamblers, revived talk of HK\$ devaluation. Such rumours were previously circulated obviously with the intention to cash in on the most credulous and unintelligent speculators in local markets.

CNS Weakness

on the unofficial Shanghai market was reaching a climax with reports of a third devaluation impending in October. One guessed around CN\$7,000 to 8,000 to the US\$. The highest black market price paid in Shanghai was around CN\$4,500. There were other factors which caused nervousness among merchants and speculators alike, viz. the Chinese government prohibition of foreign banknotes' circulation in China (enforced after September 30) which might tend to reduce the volume of "greenbacks" on the market; the reported intention of government to "nationalise" all foreign exchange possessed by Chinese at the rate of CN\$3,300 per one US\$. In this connection scared investors were discussing more "revolutionary" plans allegedly under study by Nanking like the compulsory purchase by government of all Chinese assets abroad.

Foreign exchange allotments by Central Bank of China have considerably declined partly on account of the ban on raw cotton imports. On the whole, importers found it difficult if not impossible to obtain US\$ from Central Bank and had to cover on the black market at prices from 10 to 30 per cent. over the official rate.

Banknote Forgeries

plagued public and government very much. Very large sums of CN\$ are regularly "reproduced" by counterfeit gangs whose work has been made rather easy by the flimsy productions of Shanghai banknote presses. American banknote manufacturers have now been called upon, and they will do the job which Central Bank presses were unable to cope with.

Gold Sales

Since CN\$ devaluation of mid-August, Central Bank of China sold gold bars ostensibly to check prices and withdraw fapi (CN\$) from circulation. From August 19 to end of September the Bank sold directly or through its agents an estimated total of 120,000 ounces at an average price of CN\$220,000 per oz. However, it appears that

these sales were one of the most profitable enterprises of the Bank; only Central Bank is permitted to import gold which costs at present on world markets less than US\$50 per oz. Mexican gold delivered in Shanghai at the Bank's office is paid at US\$41 while the price at which the Bank sold on the market was between US\$62 to 70 per oz. Therefore, the profit derived by Central Bank from the gold sales following the large public demand after August 19 has been probably in excess of US\$3 millions.

Chinese Customs do not issue any permits to private buyers for gold from abroad since competition by private interests with Central Bank appears to be disliked. There were rumours again of impending nationalisation of all gold holdings in China; in the light of the recent profits made by Chinese government in the gold market it is unlikely that these rumours will be believed.

Chinese Consolidated Bonds

A number of investors hopes that China will finally redeem her CN\$ bonds at 1,000 times their face value. In expectation of such possibility government bonds rise in value although China's Ministry of Finance has already redeemed bonds only at face value. The last straw which investors hope to snatch has been the Shanghai Court's verdict ordering one of the principal banks to pay back deposits at 1,000 times their prewar value. The Supreme Court will have to say the last word and until that time CN\$ government bonds, insurance policies, bank deposits are just worth what their owners think they are.

To Hang Bank, Hongkong,

whose managing director is Mr. Tung Chung-wai, chairman of the Chinese Chamber of Commerce, had bad luck in Shanghai where its office was closed and ordered to liquidate. The reason given by the Finance Ministry was that To Hang had remitted foreign exchange abroad in order to purchase commodities for itself. China's currency regulations were thus violated and the culprit had to be meted out the severest possible punishment.

To Hang has been for many months past the leading CN\$ exchange bank in Hongkong and Shanghai, and with two other local banks actually controlled the HK\$—CN\$ market. The bank's remittance business was extraordinary which has, also, from Hongkong's Exchange Control's point of view, a piquant angle: remittances were illegally conducted but benevolently done.

Trade with Netherlands East Indies

All trade with N.E.I. is at present conducted by a semi-official organization, N.I.G.I.E.O. (Netherlands Indies Government Import Export Organization), at Batavia. Exporters should contact the N.I.G.I.E.O., Batavia, or preferably its branch office, N.I.R.I.O. (Netherlands Indies Government Buying Organization), at Laan Cope van Cattenburch 123, The Hague, or the Dutch buying offices for the Netherland East Indies in Holland.

Trade might resume through commercial channels by the end of the year; meanwhile applications for foreign exchange will be granted only by the Netherlands Indies Exchange Control (Divizeen Instituut), Batavia, for goods ordered by the above organizations and consigned to the N.I.G.I.E.O., Batavia.

U.S. Surplus Disposals

In China brought for the U.S. landing rights for American commercial planes and an agreement for 30-years use of drydocks in China which will facilitate U.S. Fleet repairs in the Pacific.

Shanghai Stock Exchange

Under the name of "Shanghai Securities Exchange, Ltd." the Chinese stock exchange opened for business on September 16, trading only in the following 20 Chinese shares:

13 textiles: China Silk, Mayar Silk, Wing On Textile, Ching Fu, Sin Kong Knitting, Ching Sin Knitting, China Cotton, Ta Tung Mill, Wu Ho Weaving, Yung Fung Mill, Tung Yi Cotton, Ching Lun Knitting, Sin Ho Textile;

3 department stores: Wing On, Li An Chinese ABC;

4 miscellaneous: Great China Match, Sin Ya Chemical, Hwa Fung Enamel, and China Cement.

HONG KONG'S CONTROL OF TRADE AND FINANCE

Exerted Through Supplies, Trade & Industry Department and Exchange Control

Supplies, Trade & Industry was originally established for the purpose of importing foodstuffs and industrial raw materials in order to keep the Colony going. It was also intended to bridge

Chinese Government Bonds		in London in £	1940	1946
		High	Low	September
5%	Crisp Loan, 1912	30	13	49
5%	Reorg. Loan, 1913 (London issue)	43	18	51
5%	Canton Kowloon Railway	17	6	23
5%	Tientsin Pukow Railway	16	8	27
5%	Shanghai Nanking Railway	21	12	29
5%	Lung-Tsing U. Hai Railway (1913)	14	8	23
5%	Hukuang Railway (1911)	19	12	28
5%	Hunan Railway (1905)	16	9	32

Fluctuations on London market are moderate; the above being average rate for September.

London estimates that British investors hold about £60 millions in defaulted Chinese government bonds. (Other defaulted foreign bonds held by British investors aggregate £300 millions of European countries, £20 millions Japan, and Latin America 50 millions).

It is clear that China will have to resume servicing her foreign bonds. Britain cannot afford to neglect this issue particularly in view of her stringent economy, a consequence of the wartime sacrifices of the British people.

British United Aid to China

So far funds raised, under sponsorship of the organisation's president, Lady Cripps, amount to £1,800,000. Lady Cripps is now investigating what has been done with this money in China and to what use future donations for Chinese relief will be allotted.

Corruption & Graft

American investigations conducted by U.S. War Department, U.S. Army, UNRRA division of State Department have led to the uncovering of a large number of Chinese corruption and corruption cases in connection both with UNRRA relief materials and U.S. surplus deliveries. Official sources decline to make any public statements but it is indicated that several big scandals have been established. UNRRA has put a partial embargo on shipments to China with the explanation that "Chinese harbour congestions" forced that action. However, private statements made by UNRRA officers in China indicate that large-scale diversions of UNRRA supplies and irregular activities by UNRRA officials have prompted re-direction of relief supplies.

The recent forced resignation of UNRRA's director general, Dr. T. F. Tsien, and the voluntary resignations of a large number of sectional and regional CNRRA directors and minor officials, have been regarded as a climax in the reported irregularities within CNRRA. The extent of corruption and relief supplies diversion is certainly very great and it is expected that UNRRA headquarters will release a statement on this matter.

The Chinese press has been strong in condemnation of corruption scandals which have of late assumed more serious proportions. Under pressure of newspaper campaigns and revelations of most shocking cases, a number of high-ranking army and navy officers were arrested under accusation of leading, participating and organising smuggling on a large scale; fraudulent practices in connection with control and disposal of Japanese, German and "puppet" properties; extorting money from suspected collaborationists with the Japanese; others abusing their power and position for personal enrichment.

Among the arrested and accused were also officials of Municipalities and government organisations. However, reports about proceedings in connection with the arrested people are, if available at all, very scarce and kept purposely unclear.

over a period of general trade and industrial emergency following the Japanese surrender in the aftermath of which most business actually remained paralysed for a time. To keep supplies moving the British government had long before the surrender minutely planned how the immediate hardships of the Colony after its liberation could be alleviated. The establishment of S.T. & I. was a necessity under these conditions.

After several months' operation it became clear that the emergency period would, on account of general world conditions, have to last much longer than initially believed, and subsequently S.T. & I. took on seemingly the character of permanency. S.T. & I. in the first few months of operation purchased abroad most essential goods like coal, rice & cereals, milk & milk products, cotton yarn & piece goods, fresh and tinned foodstuffs, etc. During the early part of this year S.T. & I. appreciating the slow business recovery and innumerable obstacles confronting merchants in overseas business, and concerned with the then rising cost of living, was constrained to act more vigorously and with more responsibility towards the population of Hongkong. A variety of commodities were rigidly price-controlled, and the downward trend of prices under S.T. & I. sponsorship became ever more noticeable. U.S. military surpluses from Okinawa, Manila and other Pacific bases were, as far as foodstuffs and daily necessities are concerned, imported by S.T. & I. Dept. in very large quantities. This action in particular benefitted Hongkong more than anything else done during the current year for the relief of the Colony and the lowering of prices. More and more articles came under price control, and the remarkable thing is that, with few exceptions, all controls were observed.

Business with Japan

In the case of Japan all past business transactions were conducted by S.T. & I. with SCAP. This procedure will continue also in future as is being outlined in an article dealing with Japan's trade elsewhere in this issue. The importation of Japanese cotton yarn and piece goods which will keep local mills to some extent busy is expected shortly. Coal has been shipped here both from Japan and Indochina. Smaller quantities of rayon were also very welcome Japanese imports. On the other hand Hongkong supplied some tapioca, Army biscuits, tinned foodstuffs which went mostly to Japanese coal miners. Matrush is another export article to Japan. Negotiations for expansion of Japan-Hongkong trade are underway and prospects are very good.

Foreign Exchange

Trade is largely left to itself, and only as far as foreign exchange is involved, the Exchange Control must be consulted. There obtains the principle of encouraging inter-Empire trade but U.S. \$ is generally supplied to every business man who desires to bring here "essentials". This term is often re-interpreted and has caused often surprise both as to liberality and limitations of the operating Control.

CHINA'S UNFAVOURABLE TRADE BALANCE

Returns for Seven Months—Large-Scale Smuggling

China's trade for the first seven months of 1946 developed as follows:

Month	Imports (in millions of Chinese dollars, 000,000 omitted)	Exports (in millions of Chinese dollars, 000,000 omitted)
January	10,913	6,337
February	16,600	4,544
March	49,435	9,260
April	128,533	7,490
May	158,435	19,873
June	138,846	18,265
July	111,562	30,512
Total	614,328	96,283

UNRRA imports are not included, they amounted to CN\$164,108 millions for the period January/July, and to CN\$26,062 for the month of July. Of course, these Chinese Customs figures for UNRRA imports do not tell the whole story which can be obtained only from UNRRA directly. The difference between UNRRA and Customs figures is very

large; it is another proof for large pilferage and other misappropriations of UNRRA supplies to China.

China's imports & exports for first seven months 1946 by major trading partners were as follows:

Country	Imports of total (in millions of CN\$, 000,000 omitted)	Exports of total (in millions of CN\$, 000,000 omitted)	Per cent.	Per cent.
United States	329,456	53.63	46,498	48.29
Brazil	60,473	9.84		
India	52,209	8.5		
Hong Kong	33,017	5.37	31,485	32.7
United Kingdom	28,501	4.64		
Mexico	28,428	4.63		
Japan			2,400	2.49
Macau			2,026	2.11

British Empire trading with China totalled: imports CN\$150 billions, or almost 25%; exports CN\$38½ billions, or 40%.

Raw Cotton

Imports into China were headed by raw cotton which amounted to CN\$224,754 millions. The second item were gasoline, kerosene, lubrication and fuel oils with CN\$155,168. Next came: chemicals & pharmaceuticals with CN\$25,611; cotton piece goods with \$21,500; metals & ores \$19,506; sundries \$19,021; vehicles & vessels \$17,732; paper \$17,595.

China's exports were headed by animal products amounting to CN\$17,891 millions (bristles valued over 13 billions). Next came raw silk with \$13,852; hides & leather with \$7,976; silk goods (embroideries, laces, piece goods) with \$7,600; medicinal substances \$7,413; sundries (mainly hats, fans, hairnets, mats, electric lamps, jewellery) \$6,701; oils & fats \$6,060; clothing, towels, other textiles \$4,900; vegetables \$2,991; ores & metals \$2,420; chemicals and chemical products \$2,345; fruits (also preserved) \$2,150; paper & paper ware \$1,693; vegetable products \$1,330; timber \$1,187; fuel \$1,115.

Wolfram Ore

went 100% to USSR, viz. 15,977 quintals (100 kilos), value CN\$1,226 millions. Naturally much wolfram ore left China without knowledge of Chinese Customs and was sold to U.S. and other countries. Of this smuggled wolfram there are estimates possible if one calculates on basis of other countries' trade returns (particularly U.S.). The Soviet Union took otherwise Chinese goods and produce to the value of CN\$2,307 millions (2.40%), and sold to China goods valued at \$510 millions (0.08%).

Shanghai

was, of course, that Chinese port which almost monopolised trade with 440 billions (71.6%) imports, and 58 billions (60.7%) exports. Kowloon was conspicuous with \$11.7 bil. (19.16%) in imports while exports of China going through Kowloon were only \$1,622 millions (1.69%). Customs figures for Canton are: imports 17 billions (3%), exports 14½ billions (15%).

Shipping

American ships took the lead in shipping followed by Britain. Japanese ships were, it seems, up and coming. Shipping returns by flags were:

United States	2,242,000 tons
Britain	1,335,000
China	493,000
Chinese junks	204,000
Japan	176,000
Norway	138,000

During January/July 4,892,000 tons of shipping entered Chinese ports and cleared for abroad. Shanghai recorded 3,201,000 tons. Vessels entering totalled 2,641,000 tons, cleared 2,250,000 tons. In July 632,000 tons of shipping entered, and 526,000 tons were cleared, a total of 1,159,000 tons.

Value of CN\$

China's trade looks less impressive if the hundreds of billions are computed in foreign currencies. However, since years this always was a ticklish problem because of constant currency depreciation in China. For convenience sake, and in order to arrive at a better appreciation of trade figures, CN\$2,000 are taken as a fair exchange value to one U.S.\$ for the period of January/July.

(Chinese Customs give as average official rate for July the following figures for CN\$1,000: US\$0.48905, HK\$1.97905). Trade in 1946 started actually from April on, and has since reached regularly higher export figures while imports, although slumping after May's record high, maintained themselves well over 100 billions.

Trade Deficit

Based on the fairest possible calculation the trade returns show an unfavourable balance for first seven months of 1946 amounting to about US\$260 mil. This figure would not be so bad if it would be true. As matters stand now in China much trade is being conducted without Chinese Customs knowledge (one would not actually want to say "without official knowledge" because many officials are engaged in what is so impolitely referred to as "smuggling").

If U.S. trade returns are taken as a guide for detecting a picture more approaching reality the procedure would be as follows:

Chinese Maritime Customs record trade with United States for Jan./July thus:

Imports CN\$329 billions=US\$165 millions

Exports " 46 " = " 23 "

Balance CN\$283 " = US\$142 "

The Department of Commerce, Washington, records for the period January/June 1946:

Exports to China US\$249,561,000

Imports from China " 40,752,000

Balance US\$208,809,000

From the 6 months American returns and the 7 months Chinese returns' differences one can deduce how enormous China's trade is which enters and leaves Chinese ports without the Chinese government learning about it. (No cognisance has been taken of the irregular Customs practice to value imports not at C.I.F. prices but, adding arbitrarily 10 to 15% profit of wholesalers, artificially increased import values. This practice, however, has not been consistent and, it appears from Customs officials' statements, only in force for a few months mostly at Shanghai.)

Balance Was US\$400 Millions

If the U.S. figures are adjusted to a seven month period, and figures are then contrasted, the conclusion reached is that Chinese statistics underestimate the volume of imports into China by at least 70%, and exports by over 100%. From such conclusion follows that China's unfavourable trade balance for the first seven months of 1946 was not in excess of US\$260 millions but more likely was in excess of US\$400 millions.

Taking into consideration the present trend in China's trade, i.e. import reduction and export promotion, one cannot but estimate for 12 months of 1946 an unfavourable balance of much over US\$600, probably near to 700 millions.

Export Drive

has so far already produced good results but will not help much in reducing the large trade deficit as long as imports are not thoroughly curtailed. An increase in import duties is taken for certain which will somewhat further tend to reduce imports. On the other hand the official appreciation of US\$ and the additional appreciations on the open market will cause a much reduced volume of imports to be valued higher than before. Exports again will, although increasing in quantity, decrease in value; at best similar figures as in July can be expected in future.

No doubt stimulation of exports by such moves as abolition of export duty (as from August 17), government loans at low interest to exporters in China, and Chinese importers in Singapore, Manila, Bangkok, etc., will be noticeable.

China's trade deficit will not increase at the same tempo as during last few months; the tempo will be, however, fast enough to justify concern and the taking of more effective measures. There are some optimists who think that further U.S. government loans, foreign long term bank credits, a system of perennial overdrafts, and oversea remittances will palliate the dilemma.

Import Restrictions

have already come into force with raw cotton being prohibited to be imported except if special permission is granted. Obviously, cotton which accounts for 37% of gasoline and oils which take up about 26% of total imports could be pressed down; but what would industries say if they cannot buy raw materials for production of yarn and piece goods?

It seems logical that a realistic valuation of foreign currencies might, if not work miracles, improve considerably China's trade position.

British Trade Mission To China

The United Kingdom Trade Mission, lead by Sir Leslie Boyce, will make a thorough investigation of China's financial, trade and industrial position and upon the completion of its business, expected before Christmas, compile a report and recommendations which will be submitted to the U.K. and British Empire governments. The Board of Trade's president, Sir Stafford Cripps, who suggested the Mission's tour, and those U.K. exporters interested in China trade will receive advice from the Trade Mission's reports which are bound to shape future Anglo-Chinese commercial relations.

The Trade Mission comprises:

Sir Leslie Boyce who will examine transport & communications,

Mr. D. Maxwell Buist on behalf of electrical industries,

Mr. F. S. Winterbottom representing U.K. textile industries,

Mr. H. D. Morgan who will investigate electrical engineering facilities,

Mr. A. H. Carmichael on behalf of British light engineering industries,

Mr. R. Heyworth investigating conditions of general merchanting,

Mr. F. A. Bristow, representing the Ministry of Food, will be interested in surveying China for food purchases,

Mr. G. B. Blaker, private secretary to Sir Stafford Cripps, as representative of the Board of Trade, and

Mr. E. Thornton, representing the Trade Union Congress.

The Purpose of the Mission

is to find out conditions for mutually satisfactory trade, and to lay the basis for its expansion. Britain is mostly interested in purchases of egg products, vegetable oils, bristles, metals, and, to a smaller extent, silk.

The Mission will have a hard task to determine what British products can be bought by China and on what terms, and what may be the prospects of expansion of U.K. exports to China.

Foreign economic experts in China are not optimistic about immediate promotion of foreign trade with China so that one has to take the "long view". For some good time to come China's economy will continue in a state of disturbance and foreign traders will find ever more obstacles in their way. British business in China, mainly concentrated in Shanghai, has not minced words about the very unsatisfactory state of affairs as can be seen from records of the British Chamber of Commerce, Shanghai. British business executives have also made it clear, in public speeches and in appeals to various Chinese authorities, that conditions are bad for British and other foreign traders, manufacturers, bankers. The new British Ambassador, Sir Ralph Stevenson, admitted in a public speech in Shanghai "the unsatisfactory conditions of British business, especially shipping", and he emphasised that "Chinese restrictions against foreigners" (such as visas required for inland travels, exit permits, etc.) should not continue.

Many Difficulties

Principal complaints of foreign business men in Shanghai, beside the fact that, contrary to the 1943 agreement between China and the Powers stipulating that six months after conclusion of the war commercial treaties would be signed, even fourteen months after V-J day no commercial treaty between China and the Anglo-American countries has been concluded, can be summarised under:

Financial Difficulties:

Central Bank of China's restrictive policy in granting foreign exchange: no T.T. quotations in other currencies than US\$; no remittances to foreign countries of interest, profits, dividends, insurance premium, provident and pension funds: defaulted foreign loans: non-observance of obligations towards foreigners resulting from abolition of extraterritorial rights especially those employed by Shanghai Municipality: foreign insurance business throttled by Chinese prohibition of foreign currency policies.

Trade Difficulties:

Importers being confronted by organised pilferage gangs inflicting enormous losses (the Shanghai waterfront being terrorised by several gangs, some well armed, and allegedly enjoying protection of "important men"): rough handling of cargo causing large damages: undue delays in Customs handling: Port congestion and obstruction: excessive handling and delivery charges (largely sponsored by well organised gangs when it costs just as much to move cargo across the Shanghai harbour as is the freight charge across the Pacific): Exporters being often unable to do business on account of absolutely non-competitive prices obtaining in Shanghai (which are sky-rocketing because of extortionate transportation charges): Shipping companies being prevented from engaging in coastwise and inland-water traffic (for the solution of this serious problem the British Embassy has appointed Mr. Millbourn, an official of the Ministry of War Transport, as its Shipping Counsellor): Income tax and other taxation (often exerted by unauthorised civil and Army officers) which threaten the reductee or annihilate what small profits can be made at all under prevailing conditions in China.

Japan's Revived Trade

Foreign trade is at present State controlled and will continue to remain a government monopoly for a long time to come. Control is exercised by the "Japan Board of Trade" whose operation is supervised by SCAP. Trade control includes also management of foreign exchange. The Board of Trade negotiates with representatives of foreign governments which are at the moment restricted to: U.S. Commercial Co. (an organisation of the U.S. Administration); the Chinese government's mission to Japan; the U.S. Army in Korea; the Hong Kong government; the British Liaison Mission in Tokyo; and the Soviet Foreign Trade Commission in Tokyo.

SCAP's Import & Export Branch (headed by Lee R. Fierling) plans to balance Japan's foreign trade in 1946 but particularly on account of heavy cotton imports from America there will result by end of this year a large balance in favour of U.S. which will have partly to be made up for by larger shipments of Japanese commodities to East Asiatic countries.

Export Program for 1946

provides that goods to the value of US\$400 millions will be shipped abroad, principally to U.S., U.K., Canada, Australia, USSR, China, Taiwan, Korea, Philippines and East Indies. The chief export items will be:

(1) Raw Silk. About 130,000 bales are estimated as exportable during 1946, which would bring over US\$150 millions (much more than prewar average exports of $\frac{1}{2}$ million bales netted). Practically all silk produced in Japan will go to U.S. previously also Japan's first customer. (Another SCAP estimate states that 1946 exports should aggregate 30 million lbs., as against 95 million lbs. prewar average).

(2) Cotton yarn and piece goods. The estimate for 1946 is 850 million square yards (prewar average 2,700). This program necessitates import of 890,000 bales of raw cotton (against 3 million prewar). Thirty per cent of production will be used domestically, 70% to be exported to Philippines, Indochina, Siam, China, Korea, Taiwan, East Indies.

(3) Rayon textiles. 80 million square yards (against 575 prewar) which will be sent to South East Asiatic countries, China, Korea, Taiwan.

(4) Metal products. 200,000 lamp reflectors to U.S., 5 million electric lamp bulbs to China, Korea, Taiwan, 50,000 radio sets, 24 million radio tubes, 10,000 electric motors, 30,000 cameras, 4,000 phonographs, 150,000 bicycles, 12,000 electric fans, 2,000 refrigerators, 1,000 textile looms. Mostly to Asiatic consumers.

(5) Chemical Manufactures. 40,000 tons chinaware, 1,600 tons of celluloid products to U.S., Canada and to Asiatic countries.

(6) Agricultural & marine products. 4,000 tons of tea to U.S., Canada, and USSR. Prewar tea exports were around 18,000 tons. 1,600,000 grams of cultured pearls to U.S., U.K., and France. 16,000 lbs. of silkworm eggs to China and Korea. (The Chinese Mission tried unsuccessfully to buy more silk cocoons; SCAP prefers to send to U.S. Japan-made silks). 11,000 tons canned foodstuffs (prewar around 100,000 tons) to China, Korea, Taiwan.

(7) Minerals & metals. 1 million tons of coal to Korea, 4,000 tons electric wire to China, Taiwan, Korea. Old stock-pile will be reduced according to feasibility.

(8) Toys which reached at one time US\$10 million a year will be exported to U.S., U.K., Australia, China and South East Asia, the estimated quantity will be 15,000 tons.

Import Program for 1946

is largely dependent on the success of export plan. The most important items on the list are rice and cereals in which Japan is about 80% self-sufficient. Two million tons will have to be shipped to Japan if there is not to be scarcity. Other imports will be: sugar, raw cotton, pulp (for rayon manufacture), wool, hides, coal, oil, bauxite, soybeans, salt and fats.

Difficulties

mitigating against fulfillment of the SCAP-sponsored foreign trade program are:

(1) Indecision regarding reparations which keeps many industries idle.

(2) Labour dislocation which resulted from war industries' operations; labour unrest and strikes.

(3) Coal short supply. Program provides for about 30 million tons while there are available only 20-22 million tons.

(4) Lack of shipping. Out of prewar's 5,200,000 tons remained only less than 1 $\frac{1}{2}$ million tons.

On the other hand industries are well organised and skilled labour is still cheap and abundant if only properly controlled.

For some years to come Japan's revived foreign trade will amount to about 40% of its prewar production, and she might in due course become once again the Far East's major industrial nation. Export controls operative now in Tokyo are concerned with such limitations as will help avoiding economic clashes with U.S. and Britain.

Hongkong's Part

Hongkong is now negotiating with Tokyo regarding the shipment of a large number cotton spindles which will form the backbone of a local cotton industry. Here operate at present 45 knitting and 56 weaving mills. If new cotton mills will start, employment for many thousand workmen is assured.

Other negotiations include exports from Hongkong to Japan of certain foodstuffs, matrush, etc.

Expansion of Flying

Numerous Airlines Operating Here

At the end of September six commercial aviation companies were operating regularly 19 lines from Hongkong's airfield Kai Tak. A number of new lines are to be launched shortly, and non-schedule flying companies are coming to Hongkong in increasing numbers. Before the end of this year Kai Tak will be one of the largest air centers in the Far East and Pacific.

The following companies are at present operating here:

B.O.A.C. once weekly to U.K., once weekly to Singapore (from there to Australia). It is planned to have soon twice weekly runs to U.K. and Singapore, operate one line to Tokyo via Shanghai.

(ROYAL AIR FORCE transport planes are still booking passengers twice weekly for Singapore via Saigon, twice weekly to Calcutta via Bangkok and Rangoon, and at irregular times to Japan via Shanghai. These services are limited to "priority" travellers and will, with extension of BOAC lines, be discontinued.)

CHINA NATIONAL AVIATION CORP.: twice weekly to Chungking, Shanghai, Manila (touching Canton, Amoy, Foochow); daily to Shanghai via Canton; once weekly to Hainan Island, and to Shanghai via Kwelin, Hankow and Nanking. CNAC is 80% Chinese government, Chinese business men, and 20% Pan-American Airways owned. General manager is Chinese, operation manager an American. Captains are all Americans, co-pilots, wireless operators mostly Chinese. Almost all machines are Douglas C-46, the rest C-47, and C-53. A new line from Hongkong to Singapore is being planned.

CENTRAL AIR TRANSPORT CORP.: twice weekly to Shanghai via Canton, once weekly to Chungking and Kunming. CATC is owned by Chinese Ministry of Communications, using Dakota and Commando machines. But for a small number of foreign captains all personnel is Chinese, mostly overseas Chinese who were formerly in Canadian or U.S. air forces. More of these foreign trained overseas Chinese are tried to be engaged by CATC.

(A third Chinese aviation company, owned by Chinese business men, Dah Hwa Co., will start operations here provided that permission is obtained from the Chinese government. For the moment only CNAC and CATC are allowed to fly in China. Before the war two companies were flying in China, CNAC and Eurasia, a Sino-German company with German "Junkers" machines and largely German operating staff).

Manila Companies

Far EASTERN AIR TRANSPORT, INC.: once weekly to Bangkok, Shanghai and Manila, flying the largest plane, "Skymaster", landing in Kai Tak.

PHILIPPINE AIR LINES, INC.: twice weekly to Manila (from where direct air line to U.S.). Both companies are Filipino owned.

COMMERCIAL AIRLINES, INC.: twice weekly to Manila, once weekly to Bangkok and Singapore. Filipino-Chinese owned.

All companies use American machines and American ground & air crews. Competition on the Manila run is very close and business on the Singapore line will also, in view of the many non-schedule flights, become rather tough. However, with preference given by the travelling public to aviation, and air-lifted cargo becoming cheaper under pressure of competition, expansion of aviation companies will go on for a long time to come.

Non-schedule flights are made by:

CATHAY PACIFIC AIRWAYS (Roy Farrell Co. owned), specialising in inter-Empire air communications. Their British planes are on charter for cargo and passengers. Before long schedule flights will be arranged. The crew is composed of ex-Pilots of RAF or Royal Australian A.F., all men having thousands of miles flight experience.

HO HONG COMPANY, LTD., leading Singapore traders, shippers and financiers, with occasional flights to Rangoon (using Roy Farrell's planes).

OBSTACLES TO CHINA'S EXPORTS

State Intervention and Government Monopoly

By DR. AUSTIN S. KOO.

"How to lift the Chinese export trade" has to-day become a common slogan in the Chinese economic world and it is also the main concern of the Government policy with regard to the rehabilitation of the country. Just very recently the Chinese Government made a desperate attempt to raise the export trade by means of devaluation of the national currency and the abolition of the export duty but the result proved to be a failure because, whilst the currency has been devalued by 30%, simultaneously the cost of materials and of labour has gone up just as much or even higher.

Apart from all political reasonings and purely from the view point of an export merchant the writer wishes to put forward a few suggestions for open discussion:

Abolition of Foreign Currency Control

After the victory the Chinese Government proclaimed the abolition of Government monopoly of trading in certain materials such as ores, woodoil, bristles, etc. but the system of the control of foreign currencies is still remaining. This means to say that the exporter is liable to turn the proceeds of sale to the Government banks at official rates. As

TRANS-ASIATIC AIRLINES, INC., with headquarters in Manila, an American-Filipino owned company using American machines and employing American crews; irregular flights to Bangkok and Manila. The company might embark shortly on a flight schedule, probably once weekly service to P.I. and Siam.

Pan-American Airways

have been negotiating previously with the Portuguese government regarding resumption of their flying boat base in Macao. Since their service requires land-based four-motored planes to cruise around the world, a representative of the company, Mr. Branch, notified the Macao authorities that Panair cannot consider Macao facilities. There was previously much talk, about building of a modern airport in Macao or one of its nearby islands (Coloane) but since Panair has decided to make Hongkong a stop on its world-girdling journeys, there will have to be more emphasis in Macao on construction of a port accommodating sea-going vessels of 3 to 5,000 tons.

Panair will build hangars and offices at Kai Tak in spite of this airfield's inadequate facilities for take-off and landing of heavy machines.

Like American President Lines being the first round the world shipping service, Panair will be the first round the world air service when preparations at Hongkong have been completed.

NORTH-WEST AIRLINES, a leading American corporation, is expected to start negotiations with Hongkong regarding the use of Kai Tak for the extension of their Japan-China-P.I. runs.

Flying School

The Far East Aviation Co., Ltd., operating before the war a flying training school in Kai Tak which turned out a large number of pilots, many of whom have become well-known in various air forces during the war, will resume during this month training of air students in Kai Tak. The number of students from various Far Eastern countries who wish to take up flying as a career is naturally very large. Management and flying instructors of the school are all British.

Although the airport is very badly congested and promises to be in this condition for a long time, the school has sufficient space for instruction and training at the north-eastern end of the field. Far East Aviation also acts as local agent for air lines in Manila.

an encouragement he is only allowed to retain a certain percentage thereof for his private use. The disadvantage of this system is that the more influential merchants are always in a position to eliminate the competition at the expense of the Government by means of rendering to the government banks a comparatively lower percentage of their foreign currency. It would be more fair that the Government banks should buy or rediscount from private banks all export drafts at free market rates, however for the purpose of checking the outflow of idle capital the Government might retain the right of refusing to issue permits for remittances abroad if there should be any suspicion.

Grant of Export Credits

An accompanying phenomenon of the rising inflation of the Chinese currency has been always the high rate of interest. This had its ill-effect on all lines of trade, not only to the exporters. Whilst collecting goods, conveying same from interior to the port, and waiting for shipment abroad the exporter needs comparatively long term credits, and owing to the nature of the trade he very often needs a packing credit to last from one season to the other. The writer is of the opinion that the Government banks might finance private banks with packing credits in a similar form as when rediscounting usual commercial bills.

We take for instance a shipment of wood-oil; from Wan Hsien to Shanghai it will take about 5 weeks time. If the exporter has to purchase the goods with his funds in Shanghai, he has to add about 25% onto his cost. If he can negotiate his draft from Wan Hsien to Shanghai at 6% per mensem, that means his cost will be reduced by 19%. Again in Shanghai during the process of packing and waiting for shipment he has to spend, say, again one month. Everybody will see how easily the cost of the exporters can be increased or reduced by 50% within a short space of time.

And again the financing of the export credits had better be left in the hands of private bankers; the Government banks should leave to them a certain share of profit and let them in turn take the whole responsibility of financing. The private bankers should also be in a better position to judge the standing and credit of their individual clients.

In brief, the writer is inclined to adhere to the orthodox doctrine of the free trade school; the function of the Government should be limited to the activities of removing all obstacles which are in the way of the free development of trade and to help the trade toward a free development, but in no case to interfere and to take away jobs from the hands of experts in order to employ more Government hands.

The writer will avoid touching the question of the system of a planned State economy, because by doing so he cannot help taking side with certain social and political ideas, and this is beyond the scope of the present article which has the sole purpose of discussing practical matters.

INDEX OF WHOLESALE PRICES

The Import & Export Department of Hongkong government has compiled the following index:

(Basis: declared quantities and c.i.f. values of commodities imported into the Colony. 1938 has been selected as the base period, representing a normal year).

	1st half year			
	1939	1940	1941	1946
Foodstuffs	96.8	124.6	155.4	788.6
Metals & Minerals	100.0	141.8	160.2	308.2
Textiles	91.2	124.8	138.3	818.8
Miscellaneous	100.4	138.4	168.9	718.9

	Foodstuffs			
	1st half year			
	1939	1940	1941	1946
Beans	86.1	121.8	168.8	1,056.9
Beef	118.8	137.5	128.1*	562.5
Eggs	96.	104.	110.	974.4
Flour (wheat)	73.5	121.2	160.5	413.9
Saltfish	120.	126.7	140.	340.7
Fruits (fresh)	88.6	131.3	192.6	554.2
Lard	94.	134.7	162.7	802.7
Milk (condensed)	95.1	135.	165.9	201.3
Meat	87.8	97.6	129.3*	268.3
Onions	71.9	84.2	132.8	878.8
Peanut Oil	106.8	146.5	145.2	1,043.6
Pork	105.	120.	150.*	500.
Potatoes	86.	102.8	163.7	642.2
Poultry	104.8	138.1	208.3	751.2
Rice (broken)	88.5	131.4	197. no imports	889.5
" (white)	90.3	124.9	173.4	889.5
Sugar (raw)	131.1	164.3	128.9	1,582.6
Vegetables (dried, etc)	82.9	108.3	146.3	621.6
Vermicelli	112.5	137.5	150.	1,750.
Average	96.8	124.6	155.4	768.6

* Index number for Australian meat only (1st half year 1946).

	Textiles			
	1st half year			
	1939	1940	1941	1946
Cotton Yarn	83.1	166.2	113.8	1,524.6
Cotton	86.4	109.1	131.8	1,550.0
Gunny Bags	121.4	203.6	214.3	489.3
Hessian Cloth	133.3	173.3	180.0	446.7
Silk Piecegoods	90.8	106.5	115.5	593.6
Silk Yarn (artificial)	79.6	118.3	172.4	223.5
Blankets (wool & Union)	83.3	123.3	157.8	323.9
Flannels	83.3	120.3	93.5	186.6
Suitings & Tweeds (woollen)	75.6	119.3	128.5	473.1
Average	91.2	124.8	139.3	818.8

	Metals and Minerals			
	1st half year			
	1939	1940	1941	1946
Yellow Metal Sheathing	102.7	164.4	174.8	225.9
Coal	97.8	192.2	250.4	509.7
Iron and steel bars	82.0	121.7	135.1	231.2
Iron & steel nails	93.0	144.1	144.9	302.5
Iron & steel plates	90.4	124.2	138.4	212.7
Lead (pig)	98.8	147.1	146.9	459.3
Kerosene	94.3	129.6	185.7	394.3
Lubricating oil	89.9	140.7	145.7	293.8
Tin	77.6	131.1	168.1	245.7
Petrol	109.3	106.6	98.7	206.5
Average	100.0	141.8	160.2	308.2

	Miscellaneous			
	1st half year			
	1939	1940	1941	1946
Cement	94.7	152.9	234.9	429.6
Charcoal	115.6	156.9	256.4	638.2
Feather (ducks)	105.0	120.0	120.0	336.9
Firewood	121.1	162.1	223.2	737.9
Hardwoods	92.3	109.2	127.7	2,453.8
Hides (Cow)	91.1	99.7	95.4	303.1
" (Buffalo)	117.0	141.6	139.7	393.0
Leather (Sole)	88.7	102.3	105.5	253.6
Paper (Chinese)	112.0	115.6	116.0	443.4
Rattans	93.2	119.2	128.2	1,086.8
Salpeter	107.0	182.9	201.9	915.0
Softwoods	104.1	156.7	188.7	409.3
Soda Ash	103.4	155.2	239.4	338.5
Sulphuric Acid	72.4	104.8	142.5	323.9
Sulphate of Ammonia	88.5	196.9	213.9	1,720.4
Average	100.4	138.4	168.9	718.9

Problems of China's Cotton Industry

Cotton mill owners are anxious to resume prewar exports of yarn and piece goods and move in on previously monopolized Japanese markets. The "golden opportunity" of Chinese industrialists after Japan's surrender seems to have passed now, and other exporting countries have done what is so forcefully described as "capturing the markets". Chinese government ban on cotton textile exports continues and is, in spite of numerous petitions and demands, likely to stand for some years. Even if such ban would be rescinded, allowing a small quota of yarn to be shipped abroad, high production prices in China would make these textiles so expensive that they could not well compete with e.g. India. Meanwhile domestic requirements for yarn and piece goods are so large that China's cotton industry cannot cope with it for many years to come.

Smuggling of Cotton Yarn

in the teeth of government prohibition has been carried on for several months. Such illicit exports went mostly to Singapore, Bangkok, Manila. Hong Kong served also as a transit station but the bulk left China via Shanghai. In order to block at least Hong Kong for these "yarn smugglers", Chinese government appealed with success to the very accommodating Hong Kong authorities who subsequently ruled that no Chinese-made piece goods could be exported from the Colony. Smugglers have been not unduly upset about this order which will not, as some of them aver, in any way reduce their business.

Government Interest

in cotton industry has been always very solicitous since it is by far the most important industry in the country. After Japan's surrender China acquired all Japanese cotton mills which were combined into a government-owned "China Textile Development Corporation". The operator of most spindles in China, the Chinese government controls the price of yarn and piece goods. Up to now the CTDC maintains prices as before mid-August which would, if exports could be resumed, make Chinese textile more competitive abroad. Only the considerable expansion of mills' operations will alter the present situation. At present China imports spindles and looms, in most instances second-hand, from America and anywhere else. Such imports require heavy foreign exchange outlay and will necessitate further raw cotton imports.

Textile Industrialists have mapped out a program which

provides that if China is to export she must first satisfy most of her domestic demands which would require at least 7 million spindles and the production of 2,200 million pounds of raw cotton. In 1938 China produced almost 1,800 million lbs. of cotton but then came the war and production went down to an average of 500 to 650 million lbs. During the years following Pearl Harbour production in all China was at record low of approx. 450 million lbs. For the current year optimistic estimates state that 550 million lbs. will be produced, while the estimate for 1947 predicts almost 1,000 million lbs. Of this production usually about 3/4 reach the mills, the rest being used by the farmers. The increase in cotton growing should result from large increase in cultivation of lands, purchase of more foreign seeds, employment of more research and experimental stations.

Cotton Mills Before "China Incident"

used to operate 5 million spindles, 50,000 looms, and to produce annually about 880 million lbs. of yarn and 1,200 million yards of cloth. The estimate for the current year is: 3 million spindles which will consume, if operated without break, 900 million lbs. of raw cotton. In 1947, if all goes well, there will be 5 million spindles, consuming 1,500 million lbs. of cotton.

Import Requirements of Cotton

will therefore amount to 350 million lbs. in 1946, and 500 million lbs. in 1947. Calculated at the average US\$ price of 35 cents per pound, the foreign exchange needs by China for importation of raw cotton will be at least US\$122 millions for 1946, and US\$175 millions for 1947. It appears that up to the end of July sufficient foreign cotton was imported so as to keep the mills running for 12 months. This is also borne out by Central Bank of China's statement that for rest of this year no foreign exchange will be granted for cotton imports.

Self-sufficiency

in cotton textiles which alone would enable China to launch on an export program would demand that China must operate 10 million spindles, 400,000 looms and produce 3,000 million pounds of raw cotton.

Meanwhile other countries' cotton mills will "capture" and "exploit" the markets where formerly Japan ruled. And it is quite possible that Japan's cotton industry will slowly and modestly move back on to some of the "markets".

HONG KONG'S TRADE

Returns for First Eight Months of 1946

Leading commodities and countries in import & export were:

MERCHANDISE

Imports	Exports
Foodstuffs	Piece goods & textiles
Oils & fats	Oils & fats
Chinese medicines	Foodstuffs
Piece goods	Chinese medicines
Live animals	Paper & paper ware
Paper & paper ware	Metals

COUNTRIES

China	China
British Empire	British Empire
United States	United States
Macao	Siam
French Indochina	Fr. Indochina
Siam	Macao

Considerably increased during this year against prewar trade were imports from Macao, Indochina and Siam. Macao's increase is partly due to shipments from Kwangchow-wan which previously arrived here by direct ships while now, owing to some Chinese officials' interest in the Kwangchow-wan-Macao shipping business, Macao is being made a trans-shipment place for Hong Kong. Siam has become very prominent in trade with the Colony particularly in export business. So have British Malaya and, to smaller extent, the U.S. and China. Australia and Canada are now conspicuous suppliers of Hong Kong.

Following are detailed statistics.

Comparative figures for the summer months of 1938-1940 were:

	Imports	Exports				
June	1938	1939	1940	1938	1939	1940
July	1938	1939	1940	1938	1939	1940
August	1938	1939	1940	1938	1939	1940

Comparative figures in HK\$ do not convey a correct picture of trade resumption of the Colony as all currencies depreciated during the last 5 years. Only figures giving quantities of goods would reveal to what extent prewar trade has been resumed or even, in several instances, been left behind by latest import and export increases.

Smuggled cargo has not reached large proportions although many complaints have been lodged with the Police and Courts regarding placing of unmanifested cargo aboard ships.

**TOTAL VALUES OF IMPORTS & EXPORTS BY MAIN GROUPS
FOR AUGUST 1939 AND 1946**

Articles	Imports		Exports	
	1939	1946	1939	1946
Animals, Live	\$ 1,626,596	\$ 2,903,240	\$ 47,898	\$ —
Building Materials	697,929	2,700,130	269,239	359,090
Chemicals and Drugs	874,395	3,048,523	775,979	1,966,016
Chinese Medicines	2,205,155	4,939,211	2,090,705	5,172,250
Dyeing & Tanning Materials	1,113,371	1,202,022	876,661	669,081
Foodstuffs and Provisions	9,979,409	21,710,943	6,213,225	11,160,981
Fuels	982,729	1,348,326	37,394	4,262
Hardware	451,704	425,375	412,696	469,119
Liquors, Intoxicating	415,910	1,025,776	119,457	957,158
Machinery and Engines	494,260	266,408	976,902	71,555
Manures	137,354	92,615	299,088	498,254
Metals	4,028,888	4,316,299	4,603,096	2,488,879
Minerals and Ores	178,900	6,312	2,473,915	71,438
Nuts and Seeds	613,958	1,351,523	401,469	848,457
Oils and Fats	7,610,567	8,061,127	4,476,600	14,945,148
Paints	169,570	322,065	127,434	443,027
Paper and Paperware	1,063,536	3,090,530	423,669	3,431,765
Piece Goods and Textiles	10,421,931	6,794,347	8,453,043	26,477,798
Railway Materials	2,381	—	—	2,045
Tobacco	556,457	1,509,790	408,420	562,213
Treasure (includes bank-notes)	67,911	209,000	17,313,060	2,048,442
Vehicles	1,955,956	1,103,343	2,026,546	123,901
Wearing Apparel	227,833	696,180	2,526,080	2,238,756
Sundries	6,344,911	13,424,104	6,732,559	12,974,269
Total	52,221,611	80,547,189	62,085,125	87,682,404
Merchandise only	52,153,700	80,338,199	44,772,065	85,633,962

**TOTAL VALUES OF IMPORTS & EXPORTS OF MERCHANDISE BY COUNTRIES
FOR FIRST EIGHT MONTHS OF 1939 & 1946**

COUNTRIES	Imports from		Exports to	
	1939	1946	1939	1946
United Kingdom	30,437,333	15,121,986	14,474,600	12,098,169
Australia	4,417,266	18,140,078	2,106,462	2,438,671
Burma	981,781	—	3,982,784	34,409
Canada	3,650,490	7,409,215	1,511,443	351,769
Ceylon	169,015	103,787	732,580	349,682
East Africa	278,566	111,390	114,746	62,780
India	6,222,472	32,750,227	4,764,090	10,833,510
Malaya (British)	9,289,095	45,960,808	26,143,828	101,267,095
New Zealand	351,273	21,300	583,000	126,842
North Borneo	1,982,251	1,182,893	1,018,223	258,671
South Africa	1,273,199	19,628	1,882,795	272,853
West Africa	—	—	704,742	2,725
West Indies	2,709	700	3,189,168	29,932
British Empire, Other	441,214	14,577,413	2,025,747	170,516
Belgium	5,203,740	3,511,528	1,265,031	443,132
China, North	101,387,559	60,986,347	32,975,204	63,352,571
China, Middle	13,072,484	32,192,696	20,986,194	23,356,706
China, South	33,858,016	104,586,725	16,712,035	80,193,981
Cuba	1,929	—	103,236	78,570
Central America	7,312	20,000	995,053	54,470
Denmark	1,643,477	468,654	723,420	2,042,180
Egypt	83,810	241,918	196,073	943,872
France	2,033,541	585,610	5,707,274	622,155
French Indo China	25,512,661	36,608,564	42,260,567	20,455,536
Germany	12,644,048	—	12,291,023	—
Holland	3,360,915	27,115	5,268,992	779,223
Italy	1,059,800	111,929	175,399	172,200
Japan	19,755,597	—	3,069,618	—
Kwong Chow Wan	15,551,787	2,839,880	25,917,401	982,408
Macao	19,969,120	44,720,356	28,121,488	20,057,465
Norway	544,619	4,590,983	387,839	1,014,148
Netherlands East Indies	24,254,797	1,618,409	8,439,666	1,919,980
Philippines	1,487,096	7,408,880	7,526,056	5,958,115
Portugal	75,872	372,626	11,663	9,848
Siam	18,791,662	16,436,146	9,253,960	23,229,514
South America	565,865	12,000	783,024	114,276
Sweden	544,026	513,717	630,297	2,387,371
Switzerland	857,263	1,671,997	—	—
Spain	244,880	69,552	—	—
U.S.A.	37,330,504	65,606,564	44,490,012	40,086,503
U.S.S.R.	—	—	—	—
Others (including U.S.S.R. in 1939)	4,460,731	251,579	28,955,276	81,407

TOTAL 403,779,775 520,853,200 360,435,009 418,611,255

**TOTAL VALUES OF IMPORTS & EXPORTS BY MAIN GROUPS
FOR FIRST EIGHT MONTHS**

Articles	Imports		Exports	
	1939	1946	1939	1946
Animals, Live	\$ 9,098,544	19,384,852	\$ 261,389	\$ —
Building Materials	5,580,790	11,386,063	1,949,189	1,618,603
Chemicals and Drugs	5,533,286	14,824,747	5,198,392	14,930,855
Chinese Medicines	18,832,227	47,013,051	14,579,180	43,988,996
Dyeing and Tanning Materials	6,838,932	5,743,702	5,697,651	3,163,338
Foodstuffs and Provisions	88,808,075	134,620,935	73,249,573	67,801,303
Fuels	10,181,693	5,318,065	446,262	259,334
Hardware	2,542,625	2,056,078	3,213,871	4,329,359
Liquors, Intoxicating	3,313,081	6,296,142	978,310	3,742,404
Machinery and Engines	8,754,744	4,884,590	5,900,452	627,850
Manures	7,687,228	674,848	6,776,579	2,516,702
Metals	29,891,093	14,089,830	30,018,699	15,517,892
Minerals and Ores	4,219,969	341,472	19,272,675	657,559
Nuts and Seeds	7,028,542	14,308,617	4,239,032	8,193,962
Oils and Fats	54,872,135	63,116,784	44,677,577	71,113,314
Paints	1,488,325	2,122,922	1,287,942	2,216,942
Paper and Paperware	7,628,818	16,484,903	4,967,690	15,848,518
Piece Goods and Textiles	60,292,644	46,134,489	44,949,097	71,751,073
Railway Materials	76,152	5,122	75,448	16,926
Tobacco	7,557,014	12,368,287	7,366,042	2,924,322
Treasure (includes bank notes)	523,734	236,228	49,268,110	8,325,872
Vehicles	11,454,528	6,873,438	17,159,628	576,162
Wearing Apparel	2,633,922	5,940,747	17,179,864	11,143,893
Sundries	47,936,408	86,853,581	49,680,467	76,873,948
Total	404,303,509	521,089,438	409,703,119	428,937,127
Merchandise only	403,779,775	520,853,200	360,435,009	418,611,255

Chinese Trade Reports

Relief supplies of foodstuffs continue to be held up in Shanghai and other coastal cities with only a small percentage of shipments received reaching the areas where famine prevails although recently airlifted UNRRA goods have somewhat relieved the situation. The population of Hunan is still hardest hit by mass starvation. Shanghai black markets deal openly in UNRRA relief goods.

Stocks of raw materials in Shanghai have dwindled during the last months, and import restrictions to be enforced with more severity will further tend to bring about shortages and rising prices. Wartime stocks have been used up and there are few if any reserves for most of Shanghai's industries. New enterprise is discouraged by the universal shortage of supplies and the rising cost of labour. Capital tends to flow into speculative rather than productive business.

The disposal of Japanese, German and Nanking puppet properties by Chinese government is still undecided and adds an element of uncertainty to industrial planners of private enterprise. Taxation and impending rent increases on business and industrial properties have also troubled would-be investors.

No Constructions

But for repair works there is no construction going on in any of China's major cities which has had particularly disastrous effect on highways, streets, drainage and sewage systems, wharves and port facilities. Housing shortage is most acute and is badly exploited. There are many plans mooted in public about building of houses and factories mostly with materials hoped to be obtainable abroad but on account of the large backlog of world demand in construction materials such plans are, to say the least, premature by 2-3 years.

Telegraphic communications between China and foreign countries are still subject to long delays and unduly high rates. Chinese Government Radio Administration in Shanghai handles a traffic greater in volume than the two radio and three cable services did before the war. Equipment is inadequate; prewar equipment had been largely removed by the Chinese during the war so that at present Japanese-installed equipment is to be relied on. Until that prewar equipment has returned from Chungking and purchases abroad for modernisation of facilities in Shanghai have been made no improvement can be expected.

Port Congestion

Shanghai's Port Congestion can only be solved by a port authority invested with all necessary power to deal with the problems now threatening the economic life of Shanghai and its hinterland. Wharves and godowns are congested and there is a serious shortage of trained pilots. Oceangoing vessels are usually subject to an average turn-around time of two weeks at Shanghai, and some vessels have been delayed a month. One to two dozen of ships usually ride at anchor off Woosung awaiting entry while most arriving vessels must calculate with from 3 to 6 days waiting. A number of ships resemble floating warehouses since cargo has not been removed for many months past. If Shanghai's harbour would be properly dredged more vessels could be accommodated and unloading speeded up.

Industries in Shanghai

can no longer be assured of attractive profits in view of high cost of labour, high interest rates, strikes, inflated commodity costs, scarcity of raw and semi-manufactured materials. But for the textile industry further curtailment of production is impending since stocks are largely used up and early replacements are unlikely. Of the total industrial power consumption about 80% is regularly consumed by the textile industry.

The solution of Shanghai's industrial difficulties may be found in long-range planning which, however, presupposes increased introduction of mass-production methods to offset rising labour costs; but this will lead to further unemployment and labour unrest unless greater outlets are found for industrial products.

**TOTAL VALUES OF IMPORTS & EXPORTS OF MERCHANTISE BY COUNTRIES
FOR AUGUST 1939 AND 1946**

COUNTRIES	Imports from		Exports to	
	1939	1946	1939	1946
United Kingdom	3,516,915	3,169,136	2,113,266	1,750,109
Australia	662,360	4,738,382	260,284	501,037
Burma	18,639	—	304,067	16,151
Canada	383,088	1,474,861	116,324	83,992
Ceylon	7,533	440	124,455	8,130
East Africa	305	45,390	4,404	—
India	400,101	1,400,217	636,593	1,311,094
Malaya (British)	773,204	4,220,435	3,701,639	25,173,247
New Zealand	13,745	—	55,748	—
North Borneo	244,252	843,494	131,421	17,540
South Africa	155,422	—	317,862	173,129
West Africa	—	—	122,413	925
West Indies	—	—	473,234	—
British Empire, Other	12,084	2,077,581	209,282	30,576
Belgium	392,768	1,354,505	478,019	82,404
China, North	17,449,737	7,163,797	2,198,774	8,761,489
China, Middle	120,741	2,006,484	354,108	3,640,606
China, South	4,352,961	15,854,790	3,203,901	12,456,798
Cuba	—	—	5,390	2,970
Central America	7,212	—	134,840	17,566
Denmark	45,355	36,100	160,534	418,329
Egypt	5,463	20,582	29,869	51,344
France	247,221	283,742	1,019,859	458,542
French Indo China	2,536,603	9,739,778	5,253,443	5,976,687
Germany	1,635,079	—	1,527,975	—
Holland	591,776	18,755	1,609,667	514,789
Italy	190,499	111,929	53,970	—
Japan	2,011,885	—	386,735	—
Kwong Chow Wan	2,610,269	604,952	5,387,414	337,210
Macao	3,059,559	7,001,959	3,064,888	2,884,899
Norway	62,545	911,699	11,713	525,035
Netherlands East Indies	3,231,517	727,824	1,407,548	212,968
Philippines	159,351	977,364	836,298	687,128
Portugal	12,844	104,419	1,680	9,848
Siam	1,804,333	3,204,099	1,024,929	9,349,207
South America	62,407	—	158,310	—
Sweden	109,595	139,502	30,255	369,037
Switzerland	113,993	639,647	—	—
Spain	3,507	14,188	—	—
U.S.A.	4,704,624	11,452,138	5,865,446	9,786,980
U.S.S.R.	—	—	—	—
Others (including U.S.S.R. in 1939)	444,208	—	2,015,540	24,196
TOTAL	52,153,700	80,338,189	44,772,065	85,633,962

Canton

has been importing small quantities of medicines, iron and copper plates, soap, tires and industrial raw materials during last few months. Exports included insignificant lots of cassia, some fruits and vegetables, and other produce. It is difficult to obtain exchange for purchases abroad. The importer has mostly to turn to the black market for his exchange requirements. In the case of a number of Chinese products formerly exported it appears that stocks in commercial quantities are not available. Prices in some instances are from 200 to 2,000 times those of prewar years, and the products show lack of good workmanship or preparation and are generally below standard. After Shanghai, Tientsin and Tsingtao, Canton is the most expensive city in China.

Dredging of the Pearl River is an urgent question. So far only plans have been made providing for an outlay of CN\$85 millions, to be shared by the Pearl River Conservancy Board and Chinese Customs.

North China transportations

are very poor both on land and sea. Shipping from Northern ports to Shanghai is still difficult although expansion of British coastwise shipping has offered some relief. Regular rail schedules operating on lines out of Tientsin and Peking are inadequate, space is very limited for freight and passengers, rates charged are exorbitant. Tientsin harbour has experienced some improvement with dredging underway; work on the channel across Taku Bar has also begun.

A large number of Tientsin's industrial plants, estimated at 3,000, are idle as they ever have been since Japan's surrender. Civil war raging in nearby areas, lack of transportation, general disorganisation of enterprise are some contributing factors. Little progress has been made in unsealing of Japanese stocks some of which have begun to deteriorate. Tientsin's imports have been very much in excess of exports which appear to have come almost to a stop. The trading situation in Tientsin is still characterised by relative inactivity, exporters and importers being faced with problems other than shortages of exportable commodities and limited, costly shipping facilities. Difficulty inheres in the requirement that appointed banks deposit with the Central Bank foreign

currency margins on imports. Appointed banks and traders have at their service only limited and inadequate telecommunications with the result that such messages are often slower than ordinary mail.

The varying exchange rate between Tientsin and Shanghai, and particularly between the official and black market rates, are a serious impediment to trading activities since exporters calculate prices to oversea markets at official prices whereas their suppliers do business at black market prices. A further impediment is that imported merchandise is appraised on the basis of local market values. As in Shanghai, warehousing is short and pilferage high. Lighterage facilities are limited and costly, about half of Tientsin's fleet having been destroyed during the war.

Trade with Taiwan

Resumption of trade between U.S. and Taiwan is possible so far as Chinese regulations are concerned. Communications and trade with Taiwan are, however, still prohibited by U.S. as that area is still classified as "ex-enemy territory".

U.S. shipping with Taiwan is expected to resume after Taiwan's status as part of China has been cleared. Shipping between Taiwan and the Chinese mainland, chiefly Shanghai, is limited. Transshipment charges at Shanghai are very heavy as are freight rates and insurance rates exceed wartime levels because of heavy pilferage. Irregular British shipping service has been established between South Taiwan, and Hongkong. Taiwan has introduced a temporary export embargo on rice and metal manufactures, a permanent monopoly control over sugar (trading in which has been vested in an official company). Tobacco, camphor, spirits, wines, matches are handled as Provincial trading monopolies. All important foreign-trade activity has been concentrated in the hands of government-owned or controlled organisations. The Taiwan Government General has not permitted the opening of branches of Shanghai banks in Taiwan. Facilities for handling foreign exchange exist only to and from Shanghai. The Bank of Taiwan will eventually handle all foreign exchange of the island.

TUNG OIL

Tung oil exports from China are expected to be larger during the next few months in spite of high prices demanded by Chinese traders and the government, operating through the Natural Resources Commission.

Prices are excessive on account of high transportation charges in China, long delays and manipulations of merchants.

Tung oil sells in Chungking at an equivalent of about US\$12 $\frac{1}{2}$ per pound, transportation from there to Shanghai, taking two months or more, costs about US\$15 per ton. The Shanghai selling price is around US\$0.34 per lb., while the New York quotation is 38 $\frac{1}{2}$ cents for oil in bulk, and 39 to 41 cents in drums. The cost of ocean freight from Shanghai to U.S. is about US\$1.30 per ton, or less than one tenth of the transportation charge from Szechuan to Shanghai.

Hankow, being another centre of tung oil trade, ships oil down the Yangtze river at a freight charge of about US\$5 per ton.

Prices show a slight tendency to move upwards in spite of the US\$ exchange revision of August 19, which was expected to make Chinese exports more competitive on overseas market.

Tung oil production in China during 1945 amounted to approx. 40,000 tons (metric) of which 30,000 tons have been, or are being, exported. The prewar average production was around 75,000 tons.

Exports usually leave China via Shanghai (about 70%) and via Hongkong (30%). 1945/1946 exports via Shanghai are destined mostly to U.S. (abt. 70%), and U.S.S.R. (abt. 25%) with the rest going to Britain. Hongkong exports are practically all destined for U.K.

British business in tung oil was slack during earlier months, about 15-20 tons per month having been shipped from Hongkong but recently larger sales were reported. A few larger purchases were conducted in Shanghai where several hundred tons were bought by British interests at around £210 per ton (around 38 U.S. cents per pound). Prices of tung oil exports in Hongkong are usually lower than in Shanghai. Hongkong arrivals are largely smuggled into the Colony.

TRADE NOTES

Retail Price Control

Up to end of September, Department of Supplies, Trade & Industry has placed under control the following commodities & foodstuffs for which maximum retail prices were fixed:

CIGARETTES and TOBACCO;

MEAT (canned, imported, Dairy Farm pork & veal), MILK (powdered, evaporated, condensed, malted, etc.), SUGAR, many kinds of SWEETS & CANDIES, imported JAMS, imported FRESH FRUIT, FLOUR, BREAD, BUTTER, CHEESE, CHOCOLATE, COCOA, BEER, SOFT DRINKS & AERATED WATERS;

MEDICINES & PHARMACEUTICALS; TOILET ARTICLES (mostly for men), SOAP;

NEWSPRINT, raw RUBBER, COAL; ICE, REFRIGERANTS;

SHOE POLISH, CLEANING MATERIALS;

Plastic & other RAINCOATS, NECK TIES, TOWELS, RUBBER SHOES, LEATHER SHOES (one type).

EXERCISE BOOKS;

NYLON HOSIERY.

PRICE CONTROL OF SERVICES

Maximum prices have been announced for:

Taxicabs, motor boats for hire, other passenger-carrying harbour craft, rickshas, tricycles.

Hotels, boarding houses, hotel restaurants & tea rooms.

Detailed price lists have been issued for the information of the public, and can be obtained from S.T. & I. Periodic additions are planned for October and the following months.

